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ABSTRACT

The evaluation of three Ford Foundation supported Community Development Corporation (CDC) programs with performance relative to output targets (milestones) that are both identifiable and quantifiable are presented in this paper. The milestone targets, developed in 1973 for the following year, are targets over which the CDC would legitimately be expected to have some control. In addition to reporting the findings on CDC performance relative to these targets, qualitative factors which bear importantly on the meaningful analysis and evaluation of CDCs are discussed. The three programs evaluated are listed as follows: the Bedford Stuyvesant Restoration Corporation, the Woodlawn Organization, and the Zion Non-Profit Charitable Trust. Three case studies are also presented in order to examine the performance of the CDCs in developing major housing complexes and shopping centers. The discussion also takes into account circumstances that bear on the success or failure of these projects. An additional purpose of the case studies is to illustrate some of the opportunities and constraints facing CDCs in pursuing their various program options, The final section of the paper comments on some key aspects of the context and problems faced by CDCs, based on the observations while carrying through the project. (Author/AM)

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EVALUATING COMMUNITY DEVELOPMENT CORPORATIONS— A SUMMARY REPORT

Harvey A. Garn
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ABSTRACT

A relatively new institution--the Community Development Corporation --has emerged in recent years to help counter the continuing social and economic deterioration of many of the nation's communities. Assessing the performance of these organizations is both complex and important. Recognition of this need motivated the initiation of this evaluation of three Ford Foundation-supported CDCs in relation to their stated objectives. The work centered on the examination of CDC performance relative to output targets (milestones) that were both identifiable and quantifiable. The milestone targets, developed in 1973 for the following year, were targets over which the CDC would legitimately be expected to have some control. In addition to reporting the findings on CDC performance relative to these targets, qualitative factors which bear importantly on the meaningful analysis and evaluation of CDCs are discussed.

ACKNOWLEDGEMENTS

This report summarizes the results of work for the Ford Foundation on the design and implementation of an evaluation of Foundation-supported CDCs. The authors express their appreciation of the Foundation's continuing interest in CDCs. We, also, wish to acknowledge the contributions of time, energy, ideas, and quantitative information made by the staff members of the CDCs participating in this evaluation. For their cooperation and assistance in conducting this evaluation we are especially grateful.

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CHAPTER 1

INTRODUCTION

This paper is a report of an evaluation study and about some key issues involved in evaluating social programs. In February 1972, The Urban Institute was asked by the Ford Foundation to investigate the feasibility of designing an evaluation system for Foundation-supported community development corporations. A system was subsequently designed and partially implemented over the period of July 1, 1972 to July 1, 1974. The major focus of the first round was the assessment of the performance of three CDCs, Bedford Stuyvesant Restoration Corporation, The Woodlawn Organization, and The Zion Non-Profit Charitable Trust, from July 1, 1973 to July 1, 1974. The results of the evaluation are reported here.

From the outset, The Ford Foundation and The Urban Institute staff both treated seriously the question of whether or not a usable evaluation system could be devised for CDCs. In the report on the feasibility study, we wrote:

> Throughout the discussions between Ford Foundation and Urban Institute representatives there was universal awareness and agreement about the difficulties of accomplishing hard, quantitative evaluations of CDC activities. The Ford CDC program is appropriately a high-risk social development effort and it is by no means clear that a credible and realistic quantitative evaluation can be accomplished. . . . A major reason for undertaking the evaluation is to further explore the possibility of developing quantitative measures of the impact of innovative social programs such as CDCs for decision making.[1]

Several approaches to improved evaluation were explored while doing the feasibility study. These were:

(1) further analysis of past and current federal evaluations of programs related to CDCs;
(2) comparative analysis of CDC and non-CDC instruments for minority economic development;
(3) quantitative milestones for the Ford Foundation CDC Program; and
(4) project evaluation for the use of CDC directors.

The third alternative was chosen after discussions between Foundation officials and Urban Institute staff. At that time, it was recognized that there did

1. "Evaluating Ford-Supported Community Development Corporations - A Feasibility Report and Proposal," Harvey A. Garn and John Deutch, May 15, 1972, p. 2.

not exist a mutually agreed set of criteria for the determination of "reasonable performance" by a CDC or a consolidated body of data on current performance levels. The milestones contemplated in the selected alternative were to be quantitative targets set for each CDC which took account of its funding levels, programs, and community circumstances. Data to be collected were to be used as a basis for generating "reasonable performance" standards over time and documenting CDC achievements relative to such standards.

Both the characteristics of CDCs and the state of evaluation methodology help explain the concern which was felt about how to determine reasonable performance standards. The wide variety of institutions which call themselves CDCs, the relatively short time in which they have operated, and the atypical characteristics of their operating environments make it extremely difficult to tell what criteria should be used in assessing them and, hence, whether the CDC experiment has succeeded or failed. Examples that might be viewed as successes and failures of particular activities supported within the CDC framework can be readily found. But such ad hoc examples are not particularly helpful in painting a complete picture.

Although there has been a considerable body of literature developed which discusses CDCs, a sufficiently broad and simultaneously detailed framework had not emerged which would permit conclusive assessments to be drawn about CDC performance as we began our work. We attempted to develop a perspective which would help improve understanding of what kind of an institution the CDC is (both in terms of its structure and in comparison with other institutions), how such an institution might be evaluated, and how key policy issues associated with its operation and existence can be addressed. This kind of a framework is required in judging whether or not the performance of a particular CDC is reasonable or acceptable and in order to make assessments about appropriate policies. This paper, therefore, is a discussion of some of the key issues involved in approaching the analysis and evaluation of community development corporations as well as a report on their performance.

How to Conceive of a CDC

The conception of a CDC developed here requires for its explanation something more than a definition. There are so many variants in structural form, ownership, and program structure among CDCs that it seems fairly pointless to become overly enamored of a simple definition. Some elements of a definition, of course, spring forth from the name. CDCs usually are corporations--as opposed to governmental bodies or more loosely knit business enterprises. They usually have an identifiable

set of links with a particular community, although the nature of the linkage varies. And they usually are concerned with an array of programs that have development--political, social, and economic--as their stated purpose.

This mix of programs--some with private market analogues and some with public (governmental) analogues--is a distinctive feature of CDCs, however they are organized. Typically, the activity mix of a CDC consists, in part, of direct production and provision of goods and services. In addition, CDCs mobilize additional resources, including goods and services produced by others, for use or distribution within the community. They, also, intervene in the process of goods and services delivery between other producers on behalf of their community residents. For example, CDCs engage in operating some commercial and business enterprises; providing assistance to other entrepreneurs; providing manpower training; building, rehabilitating, and managing housing; providing access to welfare and related services; and dealing with public agencies (such as the police, fire departments, and schools) on behalf of community residents. In short, they are hybrid organizations, quasi-private and quasi-public.

The local communities in which CDCs operate tend to suffer from significantly worse conditions than the cities in which they are located as a consequence of the broader social, economic, and political forces at work. These adverse effects are evidenced by, for example, high unemployment and underemployment rates, low income levels, deteriorating housing, inferior schools, and high crime rates in the communities served. The massive combination of such conditions in a particular community creates a serious enough problem that residents, by individual action, stand little chance of improving the situation significantly. Furthermore, private firms seeking the maximization of return on their investments have little incentive to attack the overall problems, especially when better alternative locations are available.

The corrective mechanism for this kind of situation is meant to be the government, but it seems clear that the appropriate governments are not functioning adequately in this regard. Generally, governments simply do not have the incentives to address problems of this kind at the community level. One reason this is true is that the appropriate governments normally represent a larger and more heterogeneous population that includes the CDC community as only a subset. Political considerations may preclude a government's effort to redistribute income or goods and services from one community to another (usually less politically powerful) community.

Some institution, therefore, is needed to perform the combination of private and public activities which address the collective concerns of the community, without, on one hand, being constrained to maximize profits from its private activities or, on the other hand, being constrained by the political interests of the broader city. A CDC, we argue, is such an institution--one which takes as its primary objective the improvement of community welfare, rather than private profits, sales, or re-election. Its performance, therefore, should be judged on a different basis from a private firm or a broader, governmental entity.

If the collective activities of the CDC are viewed as attempts to improve community welfare, the ultimate test of its efficacy is the degree to which it does this given limited resources. The assessment of CDC performance relative to this objective, then, requires an understanding of the connections between resources, activities, and community welfare outcomes in the context of the special characteristics of CDCs and their operating environments. In order to develop meaningful performance standards for CDCs, in our view, these complex relationships need much more serious exploration than they have received to date.

Throughout this study one of our major concerns was to structure a way of thinking about these complex interactions that would provide a basis for more rigorous investigation of the issues involved in judging CDCs in their proper context. We have discussed some of these issues in separate papers.[1] Here, we will identify only a few broad classes of issues which bear significantly on the analysis and evaluation of CDCs. Then, after a brief discussion of the rationale, design, and process of the completed, initial phase of this evaluation, we will move directly to the report of our findings for the three CDCs.

One major theme which requires attention pertains to the connections between CDC resources and outputs. It is important to notice that many CDC activities, such as resource mobilization, negotiations with public agencies, residents, and other producers of goods and services, such as educational and health services, do not directly produce identifiable goods. The outcomes resulting from these and similar activities are not only more or less intangible, but many are dependent in part on the participation of other parties. In the case of health services, for example,

1. "Program Evaluation and Policy Analysis of Community Development Corporations," Harvey A. Garn, Urban Institute Working Paper 0719-01-6, October 28, 1974; "Costs: Estimation and Use in the Evaluation of CDCs," Nancy L. Tevis, Urban Institute Working Paper 0719-01-4, August 1974; "On the Need for a Set of 'Community Welfare Weights' for Community Development Corporations," Carl E. Snead, Urban Institute Working Paper 0719-01-7, November 1974; "An Approach to Issue Analysis for CDCs," Harvey A. Garn, Nancy L. Tevis, Carl E. Snead, Urban Institute Working Paper 0719-01-3, August 1974.

the responsiveness, or role, of the beneficiary clearly affects the ultimate outcome even though the CDC is held accountable as the provider of the health service. The main implication of this feature of the CDC's program mix is that meaningful output identification is both difficult and important. Careful attention should be paid to the distinctions among different classes of CDC activities and what these imply for interpreting variations in output levels achieved.[1]

It should, also, be recognized that the particular set of cumulative adverse conditions existing in a community will produce variations in the nature and severity of constraints on the operation of CDC programs in different communities. Similarly, the mix of activities and degree of emphasis on particular programs are likely to vary across CDCs because of differences in the set of community problems each CDC is attempting to address. These considerations are crucial to the development of appropriate expectations about output levels which can be achieved for given resource expenditures. Such standards do not now exist and if they are to be meaningful, should incorporate the differential effects of these special constraints on the production possibilities (feasible resource-output combinations) of CDCs.

But one wants to know more than what output levels are possible. One, also, wants to know how important or valuable the outputs are to the community being served. This requires the development of valuation criteria or rules for attaching relative values to different outputs. In many evaluation studies, an assumption is made that the worth of an output is accurately reflected in its market price. That is, a house is worth what the purchaser pays or a job is worth what the employee is paid. This frequent assumption is inadequate for our purposes because it ignores the cumulative adverse conditions and externalities which are well recognized to cause discrepancies between "market" value and "social" value and because it implies that the value of the output to an individual is equivalent to its value to the community. If neighborhood effects are not completely accounted for by variations in the price of housing, there will be a divergence between the price paid for a house and its utility to the owner.[2] If home ownership provides positive neighborhood effects (appearance, maintenance, increased sense of stability and security), the gains to the community are greater than the gains realized by the home purchaser. In short, some means of reflecting community value is required.

1. We distinguish between the production of goods and service provision. Within the service group, we further distinguish: (1) those which affect tangible assets; (2) those which affect client attributes or characteristics; and (3) brokerage services.

2. That is, market and social value coincide (it is argued) in those cases where the market operates perfectly; but not otherwise.

The process of deriving appropriate methods for attaching such relative values to CDC outputs from the community's point of view is difficult because there is no definitive basis for generating community values. One possibility, obviously, is to systematically sample the population of the community. There are many problems with attitude surveys, however, particularly in designing survey instruments which measure both the level and intensity of preferences and in interpreting responses.[1] In any case, the level of resources available for this evaluation study precluded a formal sample survey.

Given that a satisfactory survey was not feasible within the resource constraints of the study, an alternative method of assigning relative values to CDC outputs was developed. Essentially, the idea behind the suggested method was to express, in quantitative terms, factors which produced a need for a community organization such as a CDC and to use these factors to weight outputs (expressed in either physical or monetary units). We suggested that if all communities within a metropolitan area had the same kind and degree of problems, there would be no special need for a community organization to deal with these problems. Similarly, if all communities were alike their condition would not provide any basis for differentially allocating resources among communities.

These arguments suggest developing weighting factors which are ratios of conditions in the community relative to the rest of the city. We called these factors "community welfare weights" to distinguish them from market prices which are normally used to weight outputs in benefit terms. More technical aspects of such a weighting system are discussed elsewhere.[2] It is sufficient for purposes of this summary to state that one effect of using these weights is to attach more significance to activities which address the sources of greatest disparity between the community and the city of which it is a part. Another effect is to provide clues to funding sources or CDCs in their choice of program components.

A third major area which bears importantly on the meaningful analysis and evaluation of CDCs we might refer to as institutional-community dynamics. It

1. Recent developments in this area show promise for future application. "An Approach to Issue Analysis for CDCs," Harvey A. Garn, Nancy L. Tevis, Carl E. Snead, Urban Institute Working Paper 0719-01-3, August 1974.

2. "The Integration of Equity and Efficiency Criteria in Public Project Selection," Harvey A. Garn, Martin C. McGuire, Economic Journal, Volume LXXIX, December 1969. Reprinted in Redistribution to the Rich and the Poor, The Grants Economics of Income Distribution, Kenneth E. Boulding and Martin Pfaff, eds., Wadsworth Publishing Company, Belmont, California, 1972; "Problems in the Cooperative Allocation of Public Expenditures," Harvey A. Garn, Martin C. McGuire, Quarterly Journal of Economics, Volume LXXXIII, February 1969; "On the Need for a Set of 'Community Welfare Weights' for Community Development Corporations," Carl E. Snead, Urban Institute Working Paper 0719-01-7, November 1974.

seems clear that many of the major issues pertaining to the prospects for CDCs will require analysis of the major interactions among three separable groups: (1) actual or potential development support institutions; (2) the CDC as a development institution within a community; and (3) community group interests or the particular interests of individuals in the community. Both qualitative and quantitative information about the key variables which affect the highly complex, mutual interaction among these groups needs to be developed in order to assess the problems and prospects for CDCs as institutions which must mobilize many of their resources from one group--development support institutions--while attempting to allocate those resources in ways which relate to the needs and interests of another group--their community constituents. It is important--to resource suppliers, the CDCs, and the community--to understand the potential conflicts implicit in this situation and to develop arrangements in which such conflicts can be resolved or ameliorated.[1]

Of the three broad categories of issues noted above, the initial evaluation focused primary attention on the first area of concern: the connections between CDC resources and outputs. In particular, the objective of this phase was to determine what the specific outputs of CDC activities are expected to be (milestones) and the levels of these outputs (quantified milestones) which are achieved. This kind of information provides one of the components necessary to generate reasonable performance standards.

The establishment and examination of performance relative to such milestones, therefore, are at the core of this evaluation. We worked with CDC managers to establish milestone targets for essentially all of the activities of the CDCs. Our major purposes in working with the CDCs to establish targets for the outputs of the CDCs, in addition to their immediate use in our evaluation, were: first, to emphasize that the effective management of diverse activities, such as those customarily carried out by CDCs, requires the setting of tangible output goals; and, second, to initiate within the CDCs a process by means of which such tangible output goals could be established in a systematic way.

"Tangible" is used here to distinguish targets, such as number of housing units to be rehabilitated or square feet of industrial space to be filled, from important, but less achievable, outcomes, such as changes in the community's unemployment rate, median income level, or crime rate. At the beginning of the evaluation process we emphasized to both the Foundation and the CDCs that quantitative relationships between outcomes, such as those indicated by the latter

1. "An Approach to Issue Analysis for CDCs," Harvey A. Garn, Nancy L. Tevis, Carl E. Snead, Urban Institute Working Paper 0719-01-3, August 1974.

set of variables and the levels of CDC activities, were virtually impossible to establish. We recognize, of course, that the long-term goals of the CDCs are to initiate and participate in community-oriented processes which will have the result of improving overall conditions in the community as they might be expressed in such general indicators. Shorter-run CDC goals, however, should not be stated in terms of changes in such indicators. This is due to the fact that variables, such as the unemployment rate and community income level, are influenced by many factors outside the control of the CDC. It is virtually impossible to establish, quantitatively, the degree to which CDC activities contribute to observed changes in such variables. The milestone targets, therefore, relate to outcomes over which the CDC can legitimately be expected to have some control. Chapters 2 through 5 discuss the milestones relative to performance from July 1, 1973 to July 1, 1974 for the entities of the three CDCs evaluated.

Although milestones were established with each CDC, more needs to be done to formalize and use this process within the CDCs. In general, the milestone targets were established in conversations and communications between the individual managers and staffs of the subsidiary organizations of the CDCs and our staff. In this initial phase of our evaluation, the implications of the output targets set within each subsidiary activity were not considered in aggregate in terms of their implications for the total CDC effort.[1]

A potential value of target setting, aside from review by funding sources, is that it can provide a mechanism for all of the senior managers of the CDC to consider potential trade-offs among program activities in a systematic way. The process of setting milestone targets can be formally structured. Individual managers initially can set output targets in conjunction with the evaluation staff. After this is done, meetings with all of the senior managers of the CDC should be held to consider the joint implications of and possible trade-offs between these individual output targets. The lack of such a formal process at the beginning of this evaluation is not a criticism of the CDC management during the initial phase of our evaluation. Establishing the possibility of milestone target setting and its possible uses prior to attempting to make the process a more formal planning mechanism was essential.

In the work reported here, therefore, the development of consistent information about outputs and output targets occupied a major portion of the time available.[2]

1. Many of the milestone categories were utilized during the evaluation period, particularly in the Restoration Corporation, for in-house reporting and review. This can lead to more interactive forward planning and should be encouraged.

2. In this process, we attempted to reach an effective compromise between the amount of information we solicited directly in interviews with CDC staff members and the amount of information we derived from documentation provided by the CDCs.

Initially we visited each CDC to discuss programs and solicit information, both verbal and documentary, from CDC staffs. We then compiled an extensive list of possible milestones. We discussed these variables and our initial data derivations with the CDC staffs for suggestions and clarifications of some of the data.

The next step was to develop complete milestone tables for each CDC activity, which included the variables and quantity of each milestone variable produced in the period, July 1, 1972 to July 1, 1973. On a subsequent visit to each CDC, we consulted with the appropriate staff members to develop a set of targets for accomplishment over the period, July 1, 1973 to July 1, 1974. These targets were established early in the above time period. On our last set of visits, data on the actual quantities of the milestones achieved were gathered.

During the course of these visits, extensive material was obtained from each CDC (including financial data) which described CDC programs and activities more broadly than the quantitative data included in the milestones. These materials were reviewed and analyzed by our staff between visits to the CDCs.

CHAPTER 2

THE BEDFORD STUYVESANT RESTORATION CORPORATION

The Bedford Stuyvesant Restoration Corporation is the most widely known CDC participating in this evaluation and, perhaps, in the nation. It is, also, the largest CDC which has been created to serve minority communities. Restoration's prominence is attributable both to the circumstances surrounding its creation in 1967 as the first CDC to be funded under the Special Impact Program and its demonstrated ability to retain substantial funding.

In 1966, Bedford Stuyvesant's severe problems of physical and economic decay and increasing social bitterness caught the attention of Senators Kennedy and Javits. The pressing need for a solution to the critical conditions existing in Bedford Stuyvesant and other communities with similar problems prompted the Congress to pass legislation, introduced by the Senators from New York, establishing the Special Impact Program. The purpose of this amendment to the Economic Opportunity Act was "to establish special programs . . . directed to . . . have an appreciable impact in such communities and neighborhoods in arresting tendencies toward dependency, chronic unemployment, and rising community tensions . . . ."[1]

Whether or not the SIP amendment would have passed Congress without the specific program envisaged by Kennedy aides for Bedford Stuyvesant at the time the legislation was introduced is debatable. The Bedford Stuyvesant program, however, offered a promising new approach and had substantial support from New York's business and financial community. Specifically, the plan was to merge the resources of government, business, and local residents to launch a comprehensive redevelopment effort in Bedford Stuyvesant. Two separate, tax-exempt corporations were established which would cooperate in implementing the program. The Restoration Corporation, representing about 400,000 local residents, would be responsible for implementing specific activities assisted by its sister corporation, D & S, representing established business and financial interests in New York. As joint sponsors of the Bedford Stuyvesant program, both corporations required the support of the federal government in order to carry out their plans.

1. Public Law 89-794, 89th Congress, H. R. 15111, November 8, 1966, "Economic Opportunity Amendments of 1966," Part D--Special Impact Programs, Sec. 131 (a), p. 5.

Subsequent to the legislative passage of the Special Impact Program, Restoration and D & S became the first organizations to receive financial assistance. In June, 1967, the corporations began operations with an $8.6 million three-year contract with the Department of Labor. The Ford Foundation contributed to the initiation of the program with a $750,000 grant for the first year of operations, $1 million during the second year, and $1.8 million during the third year.

As far as we know, no other minority CDC has been conceived and implemented with as large a level of financial, political, and business support as Restoration received in its early years. These beginnings have had a significant influence on the evolution of Restoration as a CDC with a sophisticated corporate structure and strong internal organization. Continued growth in expenditure levels during recent years demonstrates the corporations' success in maintaining the external support of both the private and public sectors. In fiscal year 1974, the year coinciding with this evaluation period, Restoration's expenditures reached a level of $14.5 million, about 60 percent higher than fiscal year 1971 expenditures of $8.9 million. The Ford Foundation contributed more than $1 million during this period. Increasing assumption of managerial and operational responsibilities by Restoration in recent years, culminating in the merger of remaining D & S staff within Restoration in 1974, is indicative of Restoration's progress with respect to internal development. Restoration's institutional development as a vehicle for the revitalization of Bedford Stuyvesant has followed a relatively steady and even path. Unlike some other CDCs, it has not deviated significantly from its original course, but has worked to formalize and refine the basic premises underlying its initial design. In terms of an overall strategy for improving the quality of life in Bedford Stuyvesant, Restoration has maintained an approach concentrating on programs directed toward the physical and economic development of the area as well as social service programs.

This chapter is a summary discussion of Restoration's specific activities and performance during the period of our evaluation, particularly during the milestone year July 1, 1973 through July 1, 1974. Some general observations about the structure of Restoration programs are necessary to put the individual activities into perspective.

As of April 1, 1974 all Restoration programs and subsidiaries were reorganized into three corporate divisions: (1) Physical Development Division, (2) Economic Development Division, and (3) Non-profit Community Program Division. The first two divisions contain the programs which are currently considered profit centers

or potential profit centers. The Non-profit Community Program Division contains programs in the development stage which may or may not become profit centers in the future.

Community development corporations, like Restoration, contain both profit and nonprofit centers and recognize that subsidization on a long-term basis for all their activities is unlikely. They have responded to this recognition in two ways--first, by increasingly organizing their activities in such a way as to clearly identify activities which may become profitable, and second, by emphasizing that, although they strongly desire self-sufficiency, becoming self-sufficient is likely to take a considerable time.

The major funding source for Restoration (the Special Impact Program) has increasingly emphasized self-sufficiency through physical, commercial, and economic development.[1] This emphasis is reflected in Restoration's SIP IV proposal, where they say:

> In 1966, we were a vision; in 1967, a reality; and in 1972, we have become the prime force in the rebuilding of a vast ghetto through physical development, economic development and a spiritual rededication of people. We want a stake in the future, an equity stake that will allow us to truly participate in this great enterprise. A continuing effort is not built on grants and debt, but on capital.
>
> . . . the principal theme for the first half of SIP IV, although it may not be frequently articulated in this document, is the consolidation and refinement of programs, companies, and concepts that are already in place.[2]

A recent reorganization of Restoration is a step in consolidation and refinement. The Physical Development Division brings together under one vice president the following entities:

1. Restoration Development Corporation (RDC),
2. Restoration Development Corporation Commercial Center (RDC-CC),
3. Restoration Construction Corporation (RCC),
4. Restoration Funding Corporation (RFC),
5. Sheffield Rehabilitation Corporation (SRC), and
6. Property Management and the FHA Securing and Maintenance Program.

These entities carry out activities concerned with acquiring and utilizing property, constructing commercial and housing stock, rehabilitating housing, and managing it. Additionally, the Restoration Funding Corporation provides services to facilitate home purchase by community residents.

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1. See National Advisory Council on Economic Opportunity, Sixth Annual Report, June, 1973, Washington, D.C., U.S. Government Printing Office, 1973.
2. Proposal for Grant Under Title VII, Part A of The Economic Opportunity Act of 1964, as amended for Special Impact Program IV in Bedford-Stuyvesant, Brooklyn, New York.

The Economic Development Division contains investment and loan funds, management and technical assistance functions, and those business corporations wholly owned by Restoration. Included in the first category are the local business development fund, the industrial development fund, communications investment fund, and the equity investment fund. The management and technical assistance functions of the Economic Development Division are not currently conducted as a separate corporation.

The Non-profit Community Program Division contains the following programs:

1. Area development, including five neighborhood centers run by the Restoration Corporation,
2. The Comprehensive Manpower Program,
3. The Construction Worker Training Program,
4. The Home Improvement Program,
5. Day Care Program,
6. The Health Center Program,
7. The Billie Holiday Theatre,
8. Research, Planning, and Evaluation section,
9. Public Information, Government Relations, and Fund Raising.

The expenditure levels and relative emphasis on the three major programs from 1970 to 1974 are shown in Table 1. Combined physical and economic development expenditures have almost doubled over this period. Non-profit program expenditures have increased by about 50 percent.

A. Physical Development Division

The Physical Development Division brings together the subsidiary and divisional entities related to real estate development, housing, and construction. Real estate development has been a major component of Restoration's program from the beginning, but is now seen as a major focus for the Corporation.

During our evaluation, the Physical Development subsidiaries for which milestones were established were:

1. Sheffield Rehabilitation Corporation--a nonprofit corporation for purchasing properties to be rehabilitated, planning the rehabilitation, arranging financing, and supervising construction work;
2. Property Management Group--a subdivision within Restoration for managing Restoration-owned properties and the FHA Securing and Maintenance Program;
3. Restoration Funding Corporation--a for-profit mortgage company;

Table 1

EXPENDITURES
Fiscal Years Ending June 1971, 1972, 1973, and 1974

	June 1971		June 1972		June 1973		June 1974	
	Amount ($)	Percent	Amount ($)	Percent	Amount ($)	Percent	Amount ($)	Percent
Physical Development								
Community Facilities, Housing Rehabilitation, Construction, & related activities	4,379,419		5,064,762		6,558,607		9,754,763	
Mortgage Pool	133,271		150,970		181,906		219,464	
Federal Housing Administration activities	463,450		593,046		408,020		576,709	
Total	4,976,140	(56)	5,808,778	(60)	7,148,533	(59)	10,550,936	(72)
Economic Development								
Business Development Loans & equity	1,201,041		790,207		1,413,446		636,220	
Other	620,462		510,662		519,527		420,992	
Total	1,821,503	(20)	1,300.869	(14)	1,932,973	(16)	1,057,212	(7)
Non-Profit Community Area Development	754,336		925,273		1,070,311		985,557	
Comprehensive Manpower	173,953		234,432		242,459		207,943	
Community Services	114,185		121,988		381,895		349,861	
Total	1,042,474	(12)	1,281,693	(13)	1,694,665	(14)	1,543,361	(11)
Central Administration	1,110,013	(12)	1,201,863	(13)	1,289,722	(11)	1,383,028	(10)
Grand Total	8,950,130	(100)	9,593,203	(100)	12,065,893	(100)	14,534,537	(100)

Source: The figures are compiled from previous financial statements and are approximate because of shifts in organizational structure over the years. Depreciation is excluded.

4. Restoration Development Corporation of Bedford Stuyvesant, Inc. --a for-profit development company;

5. RDC Commercial Center, Inc.--a for-profit corporation for developing, building, leasing, and operating the Commercial Center;

6. BSR Construction Company--a for-profit general contracting firm.

Each of these entities are discussed below. The Physical Development subsidiaries are a tangible representation of the importance of real estate development in Restoration's overall strategy, and of the recognition that Bedford Stuyvesant has a stock of housing and other structures which are worth utilizing as a major asset in attacking the community's problems.

1. Sheffield Rehabilitation Corporation

The Sheffield Rehabilitation Corporation was organized as a nonprofit corporation in December, 1969. The corporation was set up to buy and sell real property in Bedford Stuyvesant. Aside from its ownership role, SRC engages in renovation of property which it will either hold and lease or resell.

There are plans to link the rehabilitation program with the RFC mortgage pool as renovated housing becomes available for sale. RFC did not expect these plans to materialize before 1975. The rehabilitation program of Sheffield Rehabilitation was linked, for a time, with the Restoration Construction Corporation. Sheffield Rehabilitation developed the plans for rehabilitation, including architectural design, financial feasibility, clearances, and financial arrangements. Restoration Construction Company was used as the general contractor for the construction work. This arrangement has since been changed as a result of several problems with the performance of RCC, and its subcontractors. Sheffield Rehabilitation is now acting as the general contractor for renovation work, in addition to its other responsibilities. Sheffield Rehabilitation is linked to Restoration's economic development objectives through its use of local minority subcontractors where feasible.

These linkages with other programs are cited because Restoration views its real estate development programs as activities which enhance economic development goals as well as housing goals. In the SIP IV proposal, Restoration states:

> Real estate development is involving local residents at all levels so that the wages earned and expertise derived therefrom will remain in Bedford Stuyvesant. The Corporations are shaping their real estate program to further this goal. The builder, the developer, the architect, the engineer, the general contractor, the sub-contractor,

> the laborer, the property manager, and the mortgage broker should all be Bedford-Stuyvesant residents.[1]

The fundamental direct goal of SRC, however, is to efficiently repair and renovate housing units which are structurally sound in order to help arrest the physical deterioration of Bedford Stuyvesant. In practice this means acquiring properties, planning the needed work, arranging financial packages, and, now, supervising construction.

Early experience with the program, beginning in 1968, was valuable as a learning device, although jobs sometimes took longer than expected and as a result units were more costly to complete. This explains, at least in part, why only 27 units had been completed as of July 1, 1972. Restoration concluded from its experience that:[2]

(1) the rehabilitation program has both a strong visual and economic impact;

(2) unit costs of acquisition and rehabilitation are lower than unit costs of new housing for comparable quality;[3] and

(3) operation of the program led to the development of "sound procedures and techniques."

Clearances through the required bureaucratic machinery and development of financial sources have been major problems. Building Department approval is required on all rehabilitated units prior to construction, and, in turn, construction is subject to approval prior to obtaining certification of the unit for occupancy. Such requirements exact a toll both in terms of time and funds. Funds, of course, are not overly abundant for rehabilitation work. The federal government initiated a moratorium on all such work during our evaluation period. This adversely affected the achievement of milestone targets. Sheffield Rehabilitation has been seeking funding sources other than the federal government. Although this effort has not yet resulted in many completed units, numerous alternatives have been explored and delays due to funding should be reduced.

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1. The adoption of this goal reflects an awareness of the systematic interconnections required in major efforts.

2. These observations are from the SIP IV proposal.

3. Restoration estimates that current acquisition and rehabilitation costs are about 60 percent of the costs of new housing. The authors of the SIP IV proposal state: "The unit costs of acquisition and rehabilitation, while too high to permit resale within the FHA subsidized home mortgage limits, are substantially lower than unit costs of new construction." Since the writing of the SIP IV proposal Restoration has informed us that "Some of our rehabilitated properties have been sold; several others have been completed at a cost within the FHA insurance maximum. Further, even for houses where the total project cost exceeds the FHA maximum, sales can be made if the buyer can provide the required down payment or if we are willing to take a personal note from the buyer."

The funding alternatives include: conventional financing with Restoration equity, co-op financing, and municipal loan financing. Conventional financing arrangements have proven to be the best source. Restoration interprets the willingness of conventional financial sources to join in rehabilitation as a positive sign and vote of confidence in Sheffield Rehabilitation Corporation's efforts. They write:

> Our prime indicator of the health of a community is the availability of uninsured conventional financing for both purchase and rehabilitation. These commitments represent a certain degree of confidence in the stability and potential of a community on the part of the business community.[1]

Conventional financing is advantageous because resale is not limited by FHA maximums. On the other hand, it requires Restoration to take a substantial initial equity position. National banks will provide financing in some cases up to 90 percent of the appraised value of the property; city banks will only go to 70 percent. The banks, of course, use their own appraisers and the appraisal is sometimes too low for the package to be feasible to Sheffield Rehabilitation. Relief on some properties might be obtained through favorable rulings on tax abatement by the City of New York. The primary tax exemption and abatement, called J-51, requires completion of rehabilitation work before properties become eligible. Restoration expects requests for such rulings to be favorably reviewed as they have been in the past. In addition, assessment challenges may be filed, a process which has proved successful on some properties in the past even though it takes considerable time.

Thus, in spite of the continued low volume of finished work over the past two years, the situation looks more promising for Sheffield Rehabilitation Corporation over the next two years, barring unexpected adverse decisions on tax abatement or a failure by the City of New York to certify construction on the 100 units now before them, as a result of the conventional financing arrangements which have been made.

Milestones and Achievements

The milestones and achievements for Sheffield Rehabilitation are shown in Table 2. The milestones established for our evaluation seem much more realistic than the 500 unit per year goal in the SIP IV proposal. Even so, there has been a significant shortfall in completed units. With respect to earlier years, however, the 50 units completed during the last year represent an increase in volume.

1. Quarterly Report, July, 1974.

Table 2

SHEFFIELD REHABILITATION - SELECTED MILESTONES AND ACHIEVEMENTS

	Actual		Expected		Actual	
	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
1. Owned units scheduled for rehabilitation	441	31	309	132	309	132
2. Units rehabilitated	58	31	190	132	108	50
3. Rental income on rehabilitated units		$93,570		$208,240		$179,588
4. Rental income on other occupied units		$153,500		$153,500		$132,986

Note: Additional milestones were established for number of buildings acquired for rehabilitation, number of units to be rehabilitated (inventory), buildings scheduled for rehabilitation, and buildings rehabilitated; these milestones are not shown on this table.

The rehabilitation program potentially offers Restoration, and the community, a valuable stock of assets in the form of additional well-renovated housing units. In order to make good on the equity position taken in these units and to meet mortgage requirements, delays in construction need to be further reduced, and sale or rental of units speeded up. The shortfall of eighty-two units (132 expected against 50 units completed), plus the delays in construction have resulted in a loss of potential revenue. For Sheffield Rehabilitation Corporation this has led to a net loss after depreciation, and before allocation of central administration charges, of about $60,000.

2. Property Management Group

The Property Management Group was established in February 1970. It has not yet been formally organized as a corporation. In the April reorganization of Restoration, Property Management Group became part of the Physical Development Division. This arrangement recognizes the interdependence of property management with both the new housing, commercial, and property development of RDC and the property ownership and renovation work of Sheffield Rehabilitation. The reorganization reflected, also, the more explicit treatment of Property Management as a potential profit center within the framework of Restoration subsidiaries. In pursuit of this goal, contracts with both Restoration subsidiaries and external groups will be established to provide sufficient fee income to cover operating expenses of the unit.

Operationally, the unit has responsibility for management and maintenance of Restoration-owned properties, management of FHA-owned housing which is occupied, and a securing and maintenance function for FHA-owned property which has been abandoned. Property Management Group is responsible, also, for tenant education in managed units to insure tenant help in maintaining desirable rental housing. This activity is directed particularly toward tenants in new housing units developed by RDC and rehabilitated units developed by Sheffield Rehabilitation Corporation.

Considerable learning appears to have occurred in the development of the property management function. There remains the difficult problem of deciding between the interests of the tenants and the interests of property owners when the two conflict. As the property management function has evolved into a potential profit center, the Property Management Group has had to pay attention to possible differences between owner interests and tenant interests.

The Property Management Group is clear about its obligations to the owners (in this case, primarily Restoration or its subsidiary agents), as is shown in both interviews and such documents as the SIP IV proposal. In the supplementary information to the SIP IV proposal, for example, it is stated:

> The Property Management Division is being viewed as a conventional property manager, i.e., the agent of the owner.

In many conventional property management arenas, the above view would be taken for granted. Within a CDC, however, the issue is a more tricky one.[1] The Property Management Group is, almost necessarily, caught in a dilemma which characterizes many CDC activities. If it pursues its objective of becoming a self-sufficient for-profit entity rigorously, it must undertake actions which may be opposed by a segment of the community. Some Restoration managers and board members have commented about a possible image being developed of Restoration as a new "slum landlord." On the other hand, if it does not engage in selective tenant approval, rigorous rent collection, and cost-saving activities, continuous subsidies will be required. Restoration's Property Management Group has chosen to attempt to reach self-sufficiency while trying to minimize problems with tenants.

Milestones and Achievements

During our evaluation, milestones were established for the major activities of the Property Management Group, except tenant education. These milestones are shown in Table 3.

1. See discussion of Jackson Park Terrace in Woodlawn for a similar issue.

Table 3

PROPERTY MANAGEMENT GROUP - SELECTED MILESTONES AND ACHIEVEMENTS

Milestone	Actual		Expected		Actual	
	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
FHA Securing and Maintenance Program						
1. Number of houses in program	799		850		836	
2. Gross revenues from FHA ($)		$780,310		$864,777		$1,008,061
3. Expenditures on program ($)		$330,358		$363,200		$567,709
FHA-Owned Tenant-Occupied Housing						
1. Number of units managed	50		200		33	
2. Fee at 10 percent of rents collected		$3,369		$22,930		$2,381
Restoration-Owned Properties						
1. Number of units managed						
a. Newly constructed and rehabilitated	113		383		296	
b. Other occupied	140-145		-		162	
c. Vacant units	80- 85		-		583	
2. Rents collected		$368,776		$637,000 to 653,500		$337,710
3. Fees earned at 5% of rents collected		$12,087		$31,800-32,600		$20,829

Note: Additional milestones were established for: houses added during year (net), net income, number of buildings managed, gross rentals at 100 percent collections, actual rental receipts, number of properties owned; these milestones are not shown on this table.

Property Management has fallen considerably short of expected levels of performance. As is true of many of these interdependent activities, the shortfalls were caused, in part, by the delays in completion of new units by RDC and Restoration Construction Corporation and in the completion of rehabilitated units by Sheffield Rehabilitation which were not expected when milestones were set. Property Management has linked all its major projections to expected levels of performance of these other entities.

The Property Management Group--without the FHA Securing and Maintenance program--must generate considerably greater revenues to achieve its goal of covering operating expenses out of fee revenues. The future possibilities look brighter now that Sheffield Rehabilitation has generated financing for a number of new projects and, therefore, anticipates additional construction. The volume of activity, however, has to increase very rapidly for revenue gains to exceed cost increases over the next five to ten years.

3. Restoration Funding Corporation (Mortgage Pool)

The Restoration Funding Corporation was organized in April 1970 as a fully owned subsidiary of Restoration Corporation. The Corporation is an FHA-approved mortgagee. Its primary function is to broker mortgages between those desiring to buy homes in Bedford Stuyvesant and a consortium of New York City banks who have agreed to purchase mortgages up to an initial total commitment of $65 million. Both new purchases, normally with FHA insurance, and refinancing of old mortgages are arranged by RFC.

According to virtually everyone's account, the volume of mortgages which have been closed in the program has been a major disappointment.[1] At the inception of the program, three facts stood out which led to great expectations for the mortgage pool:

(1) The rate of home ownership in Bedford Stuyvesant was high relative to many other poverty areas and much of the basic brownstone housing stock was substantial and worth saving;

(2) The existing brokerage industry had a very bad reputation, due to the practice of charging points and financing multiple mortgages at high interest rates--even when mortgage money was available; and

1. This is discussed in the SIP IV proposal as follows: "Results to date have been well below expectations. Instead [of] the $10 million annual target for loan closings, RFC closed about $5 million from the time FHA-approved status was achieved until June 30, 1972. Several factors account for this.

a. FHA activity in inner city areas has been cut back significantly in recent months, following a significant increase in foreclosures in some parts of the country and the exposure of unscrupulous practices on the part of some speculators and FHA personnel. . . . Further, some lending institutions have virtually stopped making FHA-insured loans.

b. Continuous resistance of local real estate brokers. Since inception, local brokers have been reluctant to refer clients to the Pool, preferring instead to earn higher points and discounts from private funding or mortgage placement companies.

c. RFC's advertising has not produced the results anticipated. Most of the advertising dollars went to the print medium. Efforts are being made to change the advertising by using different media.

d. The amount of fees generated per loan has been less than was expected since FHA has now allowed RFC to earn legal fees."

(3) The willingness of banks to guarantee the purchase of mortgages packaged by RFC would effectively eliminate the previous redlining of much of Bedford Stuyvesant for mortgages and homeowners' insurance.

The demand for purchases (even though RFC charged no points and provided relatively low interest rates) was much lower than expected. Refinancing became the major part of RFC's activity. Although the proportion has fluctuated, RFC estimated that about 85 percent of the mortgages closed were refinance loans.[1] From July 1973 to July 1974, however, 28 of the 46 mortgages closed were purchases rather than refinancing.

The RFC staff attribute the unexpectedly low demand to the general economic situation--which has affected home buying elsewhere, opposition to the pool from the extant brokers--including the legally questionable simultaneous closers, FHA slowness and (more recently) scandals--which resulted in the closing of the office with which RFC customarily dealt. As of July 1, 1974, slightly over 900 mortgages had been closed with a dollar value of about $17.5 million or under 30 percent of the initial $65 million bank commitment. This rate of activity does not provide RFC with sufficient revenues to support its staff and inhibits RFC in its stated objective of becoming a full mortgage banking operation.

In its operations, RFC provides initial counseling, both financial and legal, to prospective purchasers or refinancing owners. RFC makes the initial assessment of the ability of the client to fulfill the mortgage. Since most mortgages are FHA insured, FHA must inspect the property for appraisal and required repairs and renovation. RFC uses its line of credit ($1 million) to buy the mortgage. They then hold the mortgage until final sign-off by FHA for insurance and the subsequent purchase of the mortgage by a bank in the consortium.

RFC provides a warehousing service for the mortgage in the interim and receives short-term funds from the Economic Development Division to finance repairs. These funds are returned to the Economic Development Division when the mortgage is sold to a bank.

Although RFC intends to become a full mortgage banker over time and, therefore, service loans held, this function is currently performed only during the interim period after initial closing and bank purchase of the mortgage. Consequently

1. This does not imply that there are no benefits from refinancing. In the SIP IV proposal, RFC estimated that they had saved owners over $1 million on points and discounts, much of which developed from earlier multiple mortgages. Refinancing, however, does not increase the rate of home ownership, which was a major objective of the program. It does provide an alternative, otherwise probably unavailable, which may prevent the rate of home ownership from declining.

RFC has not been able to capture this additional source of revenue to date. RFC does provide, however, some service for consortium banks by doing investigations and setting up renegotiated arrangements for some mortgages which get into trouble after they are purchased by the bank.

Milestones and Achievements

Given the factors mentioned above, RFC fell short of its expected milestone achievements in all categories. Selected milestone targets and achievements for July 1, 1973 to July 1, 1974 are shown in Table 4.

Table 4

RESTORATION FUNDING CORPORATION - SELECTED MILESTONES AND ACHIEVEMENTS

Milestone	Actual 7/1/72 to 7/1/73	Expected 7/1/73 to 7/1/74	Actual 7/1/73 to 7/1/74
1. Number of loans closed:			
a. During the year	113	68- 74	46
b. Cumulative	869	937-943	915
2. Dollar value of commitments closed:			
a. Total	$1,983,800	$3,000,000	$1,058,733
b. Cumulative	16,699,164	19,699,164	17,757,897
3. Total revenue to RFC after interest expense	30,081	64,000	25,848
4. Total expenditures	202,378	288,900	185,412

Note: Additional milestones were established for: number of applications processed, number of mortgages serviced, fees earned, interest earned less interest expense (loss), gross fees earned on commercial and FHA rehab mortgages, and fees and interest earned on mortgages serviced.

It is clear from these figures that RFC would require a substantial increase in the volume of activity to be self-sustaining in terms of revenues generated from its own activities. Over the year, in spite of considerably lower expenditures than were anticipated in the milestones, the cost to RFC per mortgage closed, based on total expenses excluding interest, has more than doubled ($1,383 per close for July 1, 1972 to July 1, 1973, compared to $3,392 per close for July 1, 1973 to July 1, 1974). Alternatively stated, if the rate of gross fees remained the same as in the milestone period, the volume of activity would have to more than triple to cover costs out of gross revenues. Such an activity level, in the face of a continuation of high interest rates (RFC mortgages are processed at the prime rate) and serious increases in unemployment in Bedford Stuyvesant, seems highly unlikely. From July 1973 to July 1974, according to RFC's Director, only 850 new mortgages were closed in the whole of Bedford Stuyvesant. RFC would have to

capture a very high portion of these to break even. Earlier plans for providing additional linkages to community and FHA rehabilitation units have not yet materialized. Nor has RFC yet begun full servicing of mortgages. Both of these activities were scheduled to start after the beginning of 1975.

It should be added that this situation is one of those where the major factors affecting the disappointing outcomes appear to be outside the control of the CDC entity. It is possible that some actions by RFC could increase the activity level, but this will continue to be an uphill struggle barring a dramatic improvement in the state of the economy and resolution of problems associated with FHA operations in Bedford Stuyvesant.

4. Restoration Development Corporation and Restoration Development Corporation Commercial Center

RDC is the major physical development arm of the Restoration Corporation. Its primary function is to plan and implement major development in Bedford Stuyvesant involving land acquisition and new construction for residential, commercial, or industrial purposes. The plans for the creation of such a development company where formulated in 1971. Formal incorporation, as RDC of Bedford Stuyvesant, Inc., occurred in December 1972. In pursuit of its objective of meeting some of the major physical development needs of the community, RDC has general responsibility for:

> marketability and feasibility studies, preliminary decisions regarding feasibility, land acquisition, design coordination, construction coordination, financing, leasing and management of each project.[1]

Over the course of our evaluation, RDC has had specific responsibility for the development and implementation of five firm projects in housing and commercial development and three potential development projects. Of these projects, Site 66 (housing plus an Early Childhood Center) and a major Commercial Center were scheduled to be completed during the milestone period. Site 66 was completed, but the Commercial Center was not. Restoration Construction Company, in a co-venture arrangement with a major construction firm, carried out the construction on Site 66. There were some delays and construction problems with Site 66 partially attributable to RCC acting as general contractor on both the Site 66 project and the Commercial Center Project.

Although RDC and RDC-CC are separate entities formally, there is considerable staff overlap. During the evaluation period, almost all of RDC's efforts were concentrated on the completion of the Commercial Center, the largest physical

1. From Supplementary Information - SIP IV Proposal.

development project undertaken by Restoration to date. Restoration's experience with the Commercial Center is one of the case studies our evaluation team conducted of large-scale projects. Since this is discussed in Chapter 5, RDC and RDC-CC will not be further discussed here.

5. Restoration Construction Corporation

The BSR Construction Corporation (BSRCC) was organized in October 1967. It was formerly the Sheffield Management Corporation. BSRCC was organized as a 100 percent Restoration-owned for-profit subsidiary solely for the purpose of general contracting. Restoration has demonstrated a strong interest in the success of BSRCC throughout its existence.

This interest springs from a recognition of the relative absence of minority firms in the construction industry, as well as from the desire of Restoration management to have a subsidiary which can handle Restoration physical development work in new housing construction, renovation and rehabilitation of old housing and commercial site construction. There have been expressions of interest in attracting outside business (that is, work unrelated to Restoration projects) for the construction company, but to date relatively little such outside work has been acquired.

Since its inception, BSRCC has been involved with new housing construction (Site A and Site 66), renovation work (for Sheffield Rehabilitation Corporation), public facility construction (Early Childhood Facility at Site 66), and commercial development (Restoration Commercial Center). Work for other Restoration subsidiaries has remained central to future projections.

However, the Construction Corporation has not yet established itself as an organization with independent profit-making potential and its current prospects are not promising. There have been unanticipated costs and delays on many jobs, which have led to reduced outputs in Sheffield Rehabilitation renovations. These led to the eventual take-over of rehabilitation construction work by Sheffield Rehabilitation. Subsequent problems led to the removal of BSRCC as the general contractor for the Commercial Center.

The kinds of problems experienced with BSRCC in the Commercial Center project were summarized in a May 1973 report of Foundation advisors. They included: time delays in doing work, inadequate investigation of subcontractors, inadequate backup data, and unrealistic scheduling and materials ordering.[1]

There has been an effort by BSRCC to use minority subcontractors on its jobs. On Site 66, for example, about 29 percent of the construction dollars went to minority subcontractors. Eight of the 22 subcontractors for the housing portion

1. From Technical Advisor's Report, May 1973.

of the project were minority and four of the 22 subcontractors on the Early Childhood Development Facility were minority.

As indicated above, BSRCC's experience with subcontractors has not been entirely good. The Construction Company had to perform work for 14 of the 22 subcontractors on the school portion of Site 66. Of the deficient subcontractors on the housing portion, four were minority and on the school two were minority subcontractors. In addition to this BSRCC is engaged in litigation with a number of other subcontractors.

Milestones and Achievements

The milestones which were established for BSRCC related entirely to revenues, costs, profits, and retained earnings. Table 5 shows the milestones and achievements for the year July 1, 1973 to July 1, 1974.

Table 5

RESTORATION CONSTRUCTION CORPORATION - SELECTED MILESTONES AND ACHIEVEMENTS JULY 1, 1973 TO JULY 1, 1974

	Milestone Expected	Actual
1. Gross Revenues - Total	$5,225,000	$2,603,845*
2. Costs	5,060,000	3,044,145
3. Net Profit (Loss)	157,000	(440,300)

*Figure is for both RCC and the co-venture partner.
Note: Additional milestones were established for: housing portion Site 66 revenues, Early Childhood Facility revenues, and retained earnings (deficit).

As can be seen from the table, the construction activities have fallen far short of expectations for the period. Nor does the asset and liability picture look better than the above figures. As of June 30, 1974, BSRCC had current assets of $436,759 against current liabilities of $637,594. The co-venture partner had assets of $515,659 as against $659,069 in liabilities. The combined retained earnings deficit of the two companies as of June 30, 1974 was $496,745.

Future Prospects

Obviously, the current situation for BSRCC is not promising. As of late July, 1974, the manager indicated the possibility of a joint venture with another construction corporation for construction of all or part of two major housing projects on RDC's drawing board. As far as we know, Sheffield Rehabilitation does not intend to use BSRCC for additional rehabilitation work. BSRCC's manager indicated some considerable scaling-down of expectations for the Construction

Corporation--no current plans for outside work, co-venture arrangements on large jobs, and handling fewer jobs at any one time. These scaled-down expectations seem more realistic than the earlier projections, particularly in an industry as hard hit by inflation and recession as is the construction industry. There is little doubt that the experiences of BSRCC staff over the evaluation period have led to learning some of the major pitfalls in construction work. Turning BSRCC into a profit-making subsidiary will take some more time, however.

B. Economic Development Division

The Economic Development Division, the second major component of the Restoration Corporation, provides loans and equity funds for businesses operating in Bedford Stuyvesant. The emphasis is on local companies. The division, also, provides management and technical assistance to companies in the area, primarily to companies in the loan and equity portfolio of the division. Prior to the recent reorganization, the economic development group worked with the D & S staff in attempting to bring in outside business. The effort to attract outside business has not proven to be very successful, but attracting new industries or expansion of existing industries continues to be an objective along with the loan and equity strategy for local businesses.[1] EDD staff point, for example, to successful efforts to prevent existing businesses from relocating, such as the Daily News.

The program has made use of training credits to portfolio companies. The training credit arrangement allows businesses who conduct training to reduce their outstanding loan balances to the Economic Development Division. The strategy of providing training credits to portfolio companies was being reviewed by both the Manpower Program and the Economic Development Division during our evaluation. At issue is whether or not, given the range of normally expected problems in new businesses, they can also be expected to carry out training without adversely affecting their performance.

The strategies employed by the Economic Development Division to encourage business development and success in Bedford Stuyvesant are:

(1) loans, both long-term and working capital;
(2) training credits;
(3) purchase of equity;
(4) provision of management services and technical assistance; and with a lower priority currently,
(5) attracting new outside industries and assisting expansion;
(6) assistance to relocating firms; and
(7) construction and rehabilitation of industrial facilities.

1. See Report to the Congress by the Comptroller General of the United States, Economic Development Programs in Bedford-Stuyvesant, Brooklyn, New York Under The Special Impact Program, Office of Economic Opportunity, B130515, U.S. General Accounting Office, Washington, D.C., August 20, 1973, p. 20.

Milestones and Achievements[1]

During the year for which performance was evaluated, the Economic Development Division made fewer loans than had been anticipated when milestones were set. It was expected that most of the funds available for loans and equity positions as of July 1, 1973 (approximately $3.5 million) would be committed by the end of the year. One million dollars had been reserved for a cable television franchise. These funds have now been reallocated for housing rehabilitation, primarily as equity funds. It appears that the bulk of the lending activity of the Division is being tied in closely with the Commercial Center. The division has packaged eighteen deals relating to the Commercial Center which were to be finalized during the last half of 1974. These packages would commit $668,200 in loans and $925,000 in equity funds.

The federal funds utilized in the past have been leveraged by participation of the owners and other non-federal sources. Over the period of this evaluation, the overall leverage obtained has declined about 3 percent as a result of more extensive use of federal funds relative to other funds in construction and equity investments.

It was anticipated that 22 to 26 new companies would receive loans between July 1, 1973 and July 1, 1974. This target was not reached, although additional loans were made to companies (predominantly construction loans) already in the portfolio.

Thirty-one of the 89 companies which had received loans had become inactive as of July 1, 1974. Most of the loans to inactive companies were made prior to 1971, indicating improved selection of more recent loan recipients. Loans of slightly over $1.8 million were disbursed to inactive companies. This is 35 percent of total funds disbursed up to July 1, 1974.[2] Funds recovered from these inactive companies have been $385,000 (about 20 percent of the amount disbursed to them).

No additional companies have become inactive over the period of this evaluation. However, the companies in Economic Development Division's portfolio show

1. The following discussion refers to milestones and accomplishments as shown in Table 7.

2. This is a slightly higher loss rate than that experienced by 32 SIP grantees, including Restoration, as reported by the Abt Associates in 1973. They report a loss rate of 33 percent compared to Restoration's 35 percent (An Evaluation of the Special Impact Program: Final Report, Volume 2: Analysis of Program Performance, Abt Associates, Inc., Cambridge, Massachusetts, 1973, p. 150). Restoration management, however, feels that this loss rate is not excessive for high-risk lenders.

signs of experiencing difficulty, reflecting the general decline in business prospects nationally. Delinquencies on active loans have mounted during the past year as shown in Table 7. However, the number of active companies has increased by four, from 48 to 52 companies, and the number currently profitable has increased by seven, from 42 companies to 49, over the evaluation period.

Payments to the Economic Development Division consist of payments on principal (in cash or training credits) and interest. Early loans were interest free, but more recent loans have carried interest changes. Rates charged are below-market rates, but serve to help motivate borrowers to recognize their obligations for repayment. The effects of this change in policy are reflected in the trends of interest payments on outstanding loans. Table 6 shows interest paid to date as percentages of disbursements. To date, principal repayments have totalled $1,270,507 on $4.9 million in loan disbursements. About $483,000 of this has been in training credits. Training credits are about half the size of total cash principal recovered, $787,221, from both active and inactive companies. In the case of fully paid loans, on the other hand, cash recovery of principal was 90 percent of the total principal recovered. As of July 1, 1974, there had been returned $427,423 as opposed to only $166 397 worth of fully paid loans as of July 1, 1973. During fiscal year 1974, the year coinciding with this evaluation period, cash principal repayments were $263,835 while repayments by training credits were $46,782.

Table 6

INTEREST PAID AS PERCENTAGE OF DISBURSEMENTS, AS OF JULY 1, 1974

	(1) Interest	(2) Disbursements	(1) ÷ (2)
Inactive companies	$ 9,717	$1,805,439	0.54%
Loans paid in full	10,555	477,204	2.21
Active companies	94,896	2,624,969	3.62
Total	$115,168	$4,907,612	2.34%

1. Training Credits

The training credit arrangement provides a useful example of the complex benefits and costs associated with CDC programs. Training credits are paid to EDD's loan recipients for providing training. Payments are billed as training is provided. These credits are applied to the outstanding obligations to EDD of the company which provides the training. As of July 1, 1974 training credits of $483,285 had been provided. Additional credits of about $66,000 have been booked in July and August of 1974.

Table 7

ECONOMIC DEVELOPMENT DIVISION - SELECTED MILESTONES AND ACHIEVEMENTS

Milestones	Actual		Expected		Actual	
	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
1. Leverage (ratio of non-federal funds to federal funds disbursed)	1.005		-		.975	
2. Companies ever receiving loans	89		111-115		89	
a. Number of loans	128		150-155		140	
b. Federal funds disbursed ($m)	$4.641		$5.8		$5.223	
c. Active companies	58		86-93		62	
d. Currently profitable	44		70-77		49	
3. Loss ratios: Amount disbursed to inactive companies divided by total disbursement	35%		33-36%		35%	
4. Delinquencies on active loans: Percent of active companies delinquent more than 60 days	26%		50% or less		61%	

Note: Additional milestones were established for: federal funds available (loan and equity funds), federal funds committed, companies receiving other loans, active companies, and currently profitable companies, amount of loans to inactive companies (committed).

For those provided with jobs and training, the program is clearly beneficial. For the company, the relationship between benefits and costs is more complicated. On one side, training credits reduce the outstanding obligation. In some cases, this results in a very large offset to the initial borrowing. For three companies, training credits constituted 98-100 percent of the initial obligation. On the other hand, these companies may well be experiencing the normal problems associated with operating a new business plus the additional problem of training people.

The other major complication is that the Economic Development Division does not receive the funds from training credits for recycling as new loans or equity investments. Although the operation of the system may keep some companies afloat (Restoration Construction Company, for example, has earned or booked training credits of over $54,000 in the evaluation year on an initial equity investment of $155,000), the EDD requires additional usable revenues for reinvestment. Not surprisingly, therefore, they have argued against training credit contracts, except in those cases where the company can clearly afford the additional costs of providing training while remaining profitable.

2. Loan Packaging and Technical Assistance

It is the long-run intent of BSR and the Economic Development Division for the division to be self-sustaining from its own revenues. One means of increasing EDD's revenues is to charge fees for the management and technical assistance provided by the division to local companies as well as portfolio companies. At the time milestones were set, EDD anticipated providing technical assistance to 40 local industrial companies and earning fees of approximately $12,000. As of July 1, 1974, these expectations had not been realized. Although four companies received assistance, no fees were earned. EDD continues to provide management assistance on a regular basis for portfolio companies, having done so for 39 companies compared to a projection of 43. In the first half of 1974, EDD assisted 27 companies and devoted over 3,000 man-hours to this activity. EDD did not derive fees from this activity.

EDD also develops loan packages for a variety of ventures. During the period January 1, 1974 to July 1, 1974, 48 loan applications were received, 7 were packaged and 6 forwarded to the EDD Loan Division.

In general, there has been some shortfall in reaching milestone projections by EDD Some of this is attributable to the general decline in business prospects and some of it is due to delays in the start-up of the Commercial Center. However,

during the period of this evaluation the EDD has made some major strides in developing sophisticated data sets on Bedford Stuyvesant which will help in future planning. Estimates have been made by EDD of expected growth patterns by detailed types of businesses and the data have been analyzed to determine those activities which are likely to be in shortest supply. These planning efforts should enable EDD to target both loans and equity interests in activities with an increasing prospect of success.

3. Costs and Revenues

As indicated above, the long-run intent is for EDD to be a self-sustaining entity, covering its costs from revenues generated from its lending operations and fees for managerial and technical assistance. Most of the revenues currently generated by the Economic Development Division are in the form of principal repayments, which become recycled funds, and interest. In the period July 1, 1973 to July 1, 1974, the division received cash repayments of $263,835 on loan disbursements of $5.2 million. Interest payments of $69,162 were received during that same period.[1]

The costs incurred over the period (exclusive of a share of central administration costs) to operate the division, according to the combined statement, were about $420,000. Equivalent costs for the previous fiscal year were $519,527. The major source of the reduced cost in the evaluation period appears to be a reduction of about $100,000 in staff costs.

At the current rate of interest payments on the average outstanding loan balance, EDD would need to increase the outstanding loans by about ten times to pay operating costs of around $400,000 out of interest receipts. Outstanding loan balances over the current year averaged a little over $2.3 million. EDD has charged, however, a higher interest rate on its more recent loans so the above estimate exaggerates the loan funds needed to pay operating costs from interest revenues.[2] An effective interest rate of 17.4 percent on outstanding loan balances of $2.3 million would be required to produce $400,000 in revenue, as compared to the current effective rate of about 1.8 percent.

4. Future Plans

EDD devoted considerable time to analyzing the economic base of Bedford Stuyvesant during fiscal year 1974. The data developed and the assessment by EDD of its implications for business development are significant and should lead to an

1. The interest figure shown is from the EDD quarterly reports. The unaudited combined statement shows interest receipts of $80,756.

2. As indicated earlier, EDD also plans to supplement interest revenue with fee revenue but this latter has not provided significant amounts to date.

improved ability to achieve priority objectives successfully by better targeting of activities. The priority objectives for EDD are described in their new five-year plan. The prime priority is return on investment; the second priority is to provide incentives and assistance to tenants in the Commercial Center, particularly local tenants. A third priority is to become involved in businesses that meet community needs.

The analysis mentioned earlier has led to the development of two major strategies for business development. As stated in the five-year plan:

> With respect to Business Development, two key strategies have evolved:
>
> (i) To assist or create businesses for which there is a local market demand.
>
> (ii) To assist, create, acquire or joint venture in businesses within an industry which may not show a trend, but one which is stable and requires small capitalization.

These plans and strategies reflect several positive aspects of the operation of EDD. Although there have been problems, EDD has both learned from them and responded with new ideas. The strategies contemplated make use of potential complementarities with other Restoration programs. The shift of emphasis to ownership, through acquisition and equity positions, should allow EDD to actively affect management and Restoration to develop an improved asset position in the future, assuming a continued search for viable entities serving a real demand.

C. Non-Profit Community Programs Division

In the April 1974 reorganization, a new division of Non-Profit Community Programs was created. The division includes two major program activities, the Area Development Program and the Comprehensive Manpower Program. The division also includes a variety of ancillary services. These are:

1. research,
2. planning and evaluation,
3. government/CDC relations,
4. fund-raising activities, and
5. public information.

The Construction Worker Training Program is treated as a component of the Comprehensive Manpower Program. Components of the Area Development Program are:

1. five neighborhood centers,
2. Home Improvement Program,
3. Billie Holiday Theatre,
4. Day Care Program, and
5. the proposed Health Center.

In this section, Area Development, Comprehensive Manpower, and Ancillary Services will be discussed in turn.

1. Area Development and Neighborhood Centers

The Area Development Program is an important component of the not-for-profit division of the Restoration Corporation. This program has been an integral part of Restoration's programming from inception. The major responsibilities of the program are:

(1) to provide mutual feedback between Restoration and community residents,
(2) to relate community residents to available public services,
(3) to directly provide, either alone or with the cooperation of other institutions, public services,
(4) to analyze community needs for social services, and
(5) to develop and implement longer range programs to reduce these needs.

Operationally, these responsibilities are performed through a central staff and the staffs of five neighborhood centers.

The programs with which Area Development has been involved are both extensive and varied. During its earliest years, Area Development trained community planners and organizers and operated two community planning offices. A survey of community residents was conducted, also, to better identify community needs and concerns. In the subsequent period, studies of health, welfare, education, cultural affairs, housing, sanitation, and youth development were conducted and priority programs established for each area of concern. During this period, the Ex-Offender Program was undertaken as well as the Neighborhood Improvement program. In the period immediately prior to our evaluation study, Area Public Services (essentially the planning and development function of Area Development) continued to establish and then implement the Ex-Offender Program and helped develop the Billie Holiday Theatre project. They also worked on the development of day care centers, the Tenant Aid program, a local sanitation company, a program for senior citizens, and a health center.

The Ex-Offender Program was started but funding was not renewed after the first year, in part, because of difficulty in achieving community agreement on a proposed site. The Billie Holiday Theatre is operational. The day care program has not yet been implemented due to a funding moratorium. One day care center foundered on problems in the community associated with the site and structure of the proposed center. The private sanitation company has not materialized, in considerable part due to lack of support from city and union officials. The Health Center is not yet in being, nor is the Senior Citizens' Center. A Tenant Aid unit has been established in the Nostrand Avenue Center as a marketing arm of the co-op conversion program. Milestones were not established for these programs;

however, they are noted here since better outcomes on these programs had been sought by Area Development.

The Neighborhood Center programs, for which milestones were established, have remained operational. There are five centers, each with a special function in addition to general responsibility for dealing with the full range of service or information requests of people who contact them. Functional responsibility for health and welfare is assigned to Center 1, youth development to Center 2, cultural affairs and education to Center 3, housing and sanitation to Center 4, and Hispanic-American affairs to Center 5.

Milestones and Achievements

Establishing milestones for social programs, such as those of Area Development, presents greater problems than for many economic and physical development programs. Nevertheless, we jointly identified activity areas and overall objective statements for each activity with Area Development managers. From these, representative quantitative milestones were agreed on. The milestones, as in the other cases, do not represent ultimate impacts on the community or the values which the community attaches to the service. Rather, the milestones represent activity targets over which the staff has some control. Table 8 provides a selected set of milestones for various activities.

The center programs appear to be reasonably well structured, recognized in, and credible to the community. The costs associated with maintaining the centers demonstrate a substantial willingness on the part of Restoration to maintain a community presence.

Output levels on milestone targets are mixed, with some increases and some decreases in levels. The center program seems to be working more effectively than new program development, given the failure to have the Ex-Offender Program renewed or a permanent site accepted, the postponement (at least) of the day care program and creation of a sanitation company, and the further delays in getting a health center started.

2. Comprehensive Manpower and Construction Worker Training Programs

Recent surveys of urban poverty areas, including Bedford Stuyvesant,[1] highlight the importance of both job creation and job placement for Bedford Stuyvesant residents. The Economic Development Division has primary responsibility for the former objective. The Comprehensive Manpower Program and the Construction Worker

1. See AREA TRENDS in Employment and Unemployment, July 1974 and March 1975, U.S. Department of Labor, Manpower Administration, Washington, D.C.

Table 8

AREA DEVELOPMENT AND NEIGHBORHOOD CENTERS - SELECTED MILESTONES AND ACHIEVEMENTS

Milestone	Actual 7/1/73	Expected 7/1/73 to 7/1/74	Actual 7/1/73 to 7/1/74
Health			
1. Health Fairs conducted	11	10	2
2. Health Screenings provided			
a. Hearing	552	200	1,002
Social Services			
1. Referrals to welfare agencies	550	900	395
2. Senior Citizens Assistance	238	400	248
Youth Development			
1. Trips			
a. Number of trips	23	25	67
b. Number of participants	4,706	4,000	4,297
2. Clubs and youth groups			
a. Number of groups	78	100	101
b. Number of participants	1,180	5,000	6,413
Cultural Affairs and Education			
1. Art exhibits	38	30	47
Education			
1. Scholarships	28	30	8
2. Participation in classes			
a. Credit education	24	30	9
b. Typing	15	15	15
c. High School Equivalency	38	200	238
d. Bookkeeping	10	10	69
Housing and Sanitation			
1. Housing complaints processed	4,279	5,000	4,420
2. Housing referral assistance	1,426	2,000	1,468
Contact Between Community and Restoration			
1. Interaction with organizations and block-tenant associations	160	200	878
2. Participation in other community meetings	290	300	1,031

Note: Additional milestones were established for: health screenings provided for visitation, Sickle Cell Anemia, lead poisoning, other and referrals; Youth Development, number of athletic events and estimated attendance, enrollment in Neighborhood Youth Corps; Cultural Affairs and Education, workshop participation in modeling/good grooming, dance, drama, music, photography, sculpture, Drum and Bugle Corps participation; Education, school admissions, tutorial programs; Housing and Sanitation, housing cooperatives, number of buildings in process and number of buildings with cooperatives established, reported abandonments of automobiles and buildings; Contact Between Community and Restoration, distribution of Outreach Literature, participation in general meetings related to community activities, and coordinating activities with other organizations.

Training Program have responsibility for the latter objective. These three programs (as well as Restoration Construction Corporation) come together in connection with the Training Credit portion of the manpower program.

The purpose of the Comprehensive Manpower Program is to place residents of the community in public and private jobs as a supplement to other manpower and training programs in the area. Comprehensive Manpower does not normally provide training; rather it is a recruiting, processing, and placement service. Some counselling is provided as well as follow-up services. Follow-up services include questionnaires to employees and employers, as well as employer site visits. Applicants are referred to both jobs and training programs carried out by others. The training credit component provides Comprehensive Manpower with funds to be used as credits against loans companies have received from the Economic Development Division in return for the company providing on-the-job training to trainees referred to the employer by the manpower program. The Construction Worker Training Program is designed to insure on-the-job training in all of the major construction trades by contractors and subcontractors of construction and rehabilitation work sponsored by Restoration. In this program there are provisions, also, for training payments to contractors and subcontractors for on-the-job training provided. The CWT program, however, has not yet been effectively implemented. This is due, in considerable part, to construction union opposition and difficulties in relating to other city-wide anti-discrimination efforts in the construction industry.

Milestones were established for most of the Comprehensive Manpower Program's activities, except the computerized Manpower Information System which contains information on the persons who come into the program and their status. However, the system is a useful means of developing and maintaining information on persons entering the program. This information can be used by counselors in attempting to make good employer-employee matches although the system itself does not have a job-people matching capability.

The Comprehensive Manpower Program operates by linking prospective employees to job training slots identified by employers. This is accomplished by developing information on personal characteristics and work experience of applicants at intake and attempting to find matches between applicants and employer requisitions. Most of the program emphasis is on the successful processing of prospective employees. However, an attempt is made by the program to identify both suitable training programs and potential job sources.

A positive aspect of the Comprehensive Manpower Program is its explicit recognition of the importance of jobs in a manpower program. Although it may seem

somewhat self-evident that jobs are important, recent studies have shown that the placement of a trainee in a job explains a far larger portion of the outcome of training programs than the type of program or type of training provided. The success or failure of the approach used by Restoration, therefore, rests critically on the jobs available.

Survey data show that unemployment and sub-employment are high in Bedford Stuyvesant. Relatively few new jobs are being created. An important component of the program, therefore, is to solicit access to new job possibilities. This has been done in three ways:

(1) standing announcements with employers about the placement program,
(2) surveying prospective employers in the community and in the broader metropolitan area to solicit joint planning and employer requisitions, and
(3) the training credit program linking employers receiving Economic Development Division support to training commitments.

Most open slots, in the recent past, have come from employer requisitions. Not surprisingly, as the job market has loosened for employers, the structure of such requisitions has shifted in the direction of higher skills. In the earlier years of the program, lower skills were being requested with a sizable portion of entry level jobs. At the same time, a higher portion of potential employee intake is low skilled.

Milestones and Achievements

The performance of the manpower program from July 1, 1973 to June 30, 1974 has been mixed. Much of the difficulty can be traced to the twin obstacles posed by the national recession (declining numbers of jobs and increasing numbers of unemployed and subemployed to be placed), rather than the specific actions of manpower staff. Table 9 shows the major milestones and the level of their achievement. As can be seen from the table, no one was placed under the Construction Worker Training Program either during the preceding or the evaluation year.

The overall performance record may be attributed to a number of factors. Intake exceeded expectations as more people became unemployed. Employer requests fell off, resulting in a lower placement rate than in the previous year and considerably lower than anticipated in the milestones. Projected rates of referral relative to intake (66 percent) were unrealistically high, relative to both past experience and the job market. A referral rate was achieved that was higher than the previous year (35 percent to 28 percent), but not high enough to reach the projected levels.

Table 9

COMPREHENSIVE MANPOWER AND CONSTRUCTION WORKER TRAINING PROGRAMS - SELECTED MILESTONES AND ACHIEVEMENTS

Milestones	Actual		Expected		Actual	
	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
Comprehensive Manpower and Construction Worker Training Programs						
1. Number of people processed through intake		5,106		3,000		5,306
2. Number of employer requests received		1,145		1,667		1,033
3. Number of people referred to prospective employers		1,421		2,000		1,869
4. Number of people placed	4,600	602	5,600	1,000	5,258	658
5. Cost per placement		$400		$237		$316
Training Credit Program						
6. Number of companies in payment credits program	18	2	23	5	22	4
7. Number of training slots hired	348	65	416	68	369	21
8. Credits earned by employers through program	263,055	60,207	326,023	62,969	310,615	47,560

Note: Additional milestones were established for: number of trainees placed through the Construction Worker Training Program and number of training slots authorized in the Training Credit Program.

The cost per placement experienced during July 1973 to July 1974 is less than the previous year, although significantly higher than the milestone figure of $237 per placement. If the expenditures made for the Construction Worker Training Program, which resulted in no placements, are added to those for the Comprehensive Manpower Program, cost per placement is raised from $316 to $362.

Future Prospects

The future prospects for this program and for reducing the cost of placing people in full-time jobs over the near term are not bright. This type of program is especially hard hit by a job market which is as weak generally as the current

market. More aggressive solicitation of employer requisitions might help somewhat, but should not be expected to solve the problem. Not only are requisitions unlikely to increase sharply, but the requisitions received are likely to be somewhat poorly matched with the intake in terms of skill levels. It is clear that there is great need for additional job possibilities for residents of Bedford Stuyvesant. The Comprehensive Manpower Program showed an early recognition of the importance of a suitable match in an ongoing job--well ahead of a similar recognition in other programs. Unfortunately, such a program works far better when employers are competing for scarce employees than when the situation is turned around.

3. Ancillary Services

We did not establish milestones for the units of the Non-profit Community Programs Division which we have labelled ancillary services. These include: planning and evaluation, government/CDC relations, fund-raising, public information, and research. They will not be discussed extensively here.[1] A few comments, however, are in order.

It has been a great strength of Restoration that it has consistently maintained an effective working relationship with most governmental organizations affecting its operations. Such a situation does not happen accidentally and deserves, therefore, a strong plus for Restoration and its managers. Similarly, Restoration has consistently had a strong public image outside of Bedford Stuyvesant. Our own impression is that this is due, not only to the scale of Restoration's activities but also to the work of its public information office.

The research and planning and evaluation functions are duplicated in neither of the other two CDCs we have been studying. There appears to be a useful interaction between program staffs (e.g., the Economic Development Division) and the developing research. The detailed examination and patient development of primary data on Bedford Stuyvesant carried out by program and research staffs is an asset of considerable magnitude to Restoration and should be seriously considered by other CDCs.

1. Planning and evaluation, fund raising, government/CDC relations, and public information are, however, important parts of a developed resource mobilization function and would be more extensively examined in future research.

CHAPTER 3

THE WOODLAWN ORGANIZATION - WOODLAWN COMMUNITY DEVELOPMENT CORPORATION

Introduction

In this chapter we examine the activities and performance of The Woodlawn Organization (TWO) and its urban development arm, The Woodlawn Community Development Corporation (WCDC). These two components of the present structure of the Woodlawn program represent both the oldest organization still actively functioning (TWO) and the most recently established organizational entity (WCDC) participating in this evaluation study. The origins and evolution of the community development effort in Woodlawn, from the formation and development of TWO to the current dual organization structure with most functions conducted by WCDC, represent the most dramatic changes among the three CDCs studied. However, the strength of the original community base continues to exert influence on the new organizational structure.

The Woodlawn Organization was formed in 1960 by a federation of some 100 community groups in order to consolidate their community protest actions on issues of relevance to Woodlawn. At this time, the physical, economic, and social health of Woodlawn was rapidly waning. As conditions worsened, the exodus of families and businesses accelerated: between 1960 and 1970, the population of Woodlawn dropped from over 60,000 to 36,500. In this increasingly poor environment, TWO's member organizations--block clubs, church groups, welfare unions, tenant associations--united in their opposition to the actions or inactions of established institutions in several areas of concern: housing, schools, employment, health services, and consumer protection, for example. A crucial test of TWO's capacity to protect the interests of its community arose when the University of Chicago attempted to expand its campus into the Woodlawn area under the Urban Renewal program. TWO successfully prevented this action, primarily by mobilizing the support of the people of Woodlawn to participate in mass demonstrations in opposition. This, in turn, strengthened TWO's negotiating position with the City of Chicago and the University of Chicago.

With its credibility in the community as well as with external institutions enhanced, TWO began to expand its scope of action in 1964 to encompass programs,

initially in the area of manpower training. This development marked the first endeavor undertaken by TWO with the support of external funds. Throughout the rest of the 1960's, a period when federal categorical grant programs flourished, TWO actively engaged in mobilizing resources for a variety of additional substantive projects: housing development for low-income families, a shopping plaza, a supermarket, a health center, and other activities were either in planning or underway. During these years, TWO's roots in the community were strengthened, in part, through continuation of community organization activities, social protest actions, clean-up campaigns, and anti-slum drives. More importantly, elected representatives of membership organizations, and in some cases, the entire body of members, were actively involved in the planning of new activities and the review of past actions undertaken by TWO staff.

In 1969, TWO's level of activity and fiscal responsibilities had reached proportions requiring a greater degree of organizational coordination, additional staff and better mechanisms for operational and financial accountability. Annual program expenditures in 1969 were nearly $0.5 million, a relatively small sum in comparison with some programs, such as Model Cities, but a significant achievement for an organization which began only with the support of its annual membership dues of $50 per organization. In order to meet these growing administrative responsibilities, TWO sought and received assistance from the Ford Foundation. The first grant, 1970-1971, provided TWO with $100,000 in administrative support funds.

By 1972, when this evaluation study began, the Woodlawn program was entering a new phase in its evolution. That year, WCDC was created as the result of the prevailing, though not unanimous view, that the time had come for separating the physical and economic development activities of the program from the protest and community organization aspects of the program. TWO was to retain ultimate control of WCDC's activities as the representative of the community. Total expenditures in 1972 had reached a level of $1 million, $300,000 of which was the Ford Foundation's contribution (allocated two-thirds to WCDC, one-third to TWO).

Since the establishment of WCDC, a period of transition has been under way. During the first year, emphasis was placed on business development, primarily individual enterprise development, but in mid-1973 a significant directional change in the Woodlawn program took place. Large-scale real estate development and management, with a particular emphasis on housing, became the foremost priority. Integrated physical redevelopment of Woodlawn through projects of scale was viewed

as an opportunity that would be undertaken imminently by others, if not by WCDC, and one that had favorable potential with respect to funding sources.

The transition TWO/WCDC has been, and still is, experiencing has produced several changes in its structure, its operations, and its perspective. More formal functional division of responsibilities has replaced the earlier reliance on an ad hoc decision-making process, a systematic financial information system is being implemented where scattered records were kept before, concern for increasing credibility with financial and business institutions has become more prominent, and financial feasibility of projects is more prudently examined before decisions are made. While the approval and support of the community remains a vital concern, more tension is visible in attempting to balance the immediate needs of residents with the longer-run alternatives for restoring Woodlawn as a viable, stable community.

During the year for which the performance of the activities of TWO/WCDC is examined in the remainder of this chapter, July 1, 1973 through July 1, 1974, expenditures reached a level of about $2.5 million, a sizable increase over previous years.

The subsequent discussion in this chapter is organized to reflect the current operational arrangements established by TWO/WCDC staff. These are described briefly below.

Nearly all of the programs and entities of TWO/WCDC are now contained within five divisions of WCDC, each representing a major category or area of activity:

1. Real Estate Planning and Development,
2. Real Estate Management,
3. Commercial Enterprises,
4. Manpower, and
5. Community Services.

The sixth major category of activity, Community Organization, is not considered a division of WCDC. The programs in this area are carried out under the auspices of TWO rather than WCDC.

Both the Real Estate Planning and Development Division and the Real Estate Management Division of WCDC were established during the evaluation period as part of the new organizational thrust toward coordinated, large-scale real estate projects. In discussing these divisions, we have concentrated attention on their activities and accomplishments as functional units during the evaluation period. Since it is intended that both divisions will eventually become profit-making, we make note of their current plans for achieving this goal.

In order to provide a more detailed assessment of two major real estate development projects currently under the direction of the Planning and Development

Division and/or the Management Division, case studies of Jackson Park Terrace and Woodlawn Gardens were conducted.

The third division of WCDC, Commercial Enterprises, consists of the four for-profit entities affiliated with TWO/WCDC: TWO/Hillman's Supermarket, the Maryland Theatre, the TWO/Security Patrol, Inc., and Observer Publications, Inc. Only one of these entities, TWO/Hillman's Supermarket, is clearly generating profits as of July 1, 1974.

The Manpower Division of WCDC consists of six training programs, all of which are conducted by the Woodlawn Career Vocational Institute on a cost-reimbursement contractual basis with federal or state agencies. The last division, Community Services, consists of a health center called the Greater Woodlawn Assistance Corporation and a newly established black adoption agency.

The activities carried out by the TWO Community Organization component consist of four major programs:

1. Neighborhood Organization,
2. Environmental Action Program,
3. Tenant Awareness Program, and
4. Social Services Program.

Another program which has been included in this area of activity is the Early Childhood Development Center although it operates as an independent entity rather than a program component of Community Organization.

A. Real Estate Planning and Development Division (REPDD)

The Real Estate Planning and Development Division of WCDC came into existence as a formal organizational component early in 1974. The establishment of the division reflects the anticipated expansion of WCDC's activities in real estate planning and development and the intent of WCDC to effect the redevelopment of Woodlawn through coordinated projects-of-scale. In the short time it has existed, REPDD has made significant headway both organizationally and operationally.

Since REPDD did not exist in July of 1973, specific milestones for the division were not set. The major real estate development activity in process during the evaluation, Jackson Park Terrace, is treated as a case study in Chapter 5, along with Woodlawn Gardens, a large low-income housing development completed in 1971. The other major activities of this type were the development of a proposal for the redevelopment of Woodlawn and a rehabilitation project. In this section, the events which transpired during the evaluation with regard to these two activities as well as current plans of the new division will be discussed.

1. Redevelopment Planning

During this evaluation study WCDC seriously explored the potential for large-scale redevelopment of Woodlawn. Their strong interest in studying the feasibility of doing so and formulating possible alternative approaches stemmed from the view that eventual redevelopment of Woodlawn was a near certainty. The question was: who would undertake and, therefore, control the redevelopment process?

Most of the activity in the last two years concentrated on one parcel of land, an area designated as a first phase demonstration. The major milestone WCDC hoped to achieve was the acquisition of seed money for land purchasing. This was accomplished in late 1974.

A number of critical and difficult choices have, and will, arise for WCDC in moving forward with the redevelopment effort. Alternative courses of action will bring about different long-term effects on the variety of concerns a CDC tries to encompass, e.g., the needs of its community residents and the pressures to become self-sustaining. WCDC's approach to redevelopment is illustrative of some of the complex issues involved in choosing a plan of action where a very crucial question still exists: What strategy is really appropriate for the large-scale redevelopment of a community characterized by adverse conditions like those in which CDCs operate?

WCDC's strategy is to bring about fundamental alterations in the physical and socioeconomic composition of Woodlawn. By restructuring all elements of the living environment, WCDC expects to attract and retain more moderate-income residents, thereby creating a viable community within Woodlawn. In order to do so, WCDC emphasizes the importance of altering past trends and the current image of Woodlawn, the need to provide well-designed living units, ample supporting facilities, and the ability to treat issues of security and schools successfully.

The basic premise underlying WCDC's strategy is that Woodlawn cannot continue to function as the enclave for the poor and indigent (while surrounding communities assimilate those financially able to choose better living environments), and, at the same time, become viable. In other words, a community which cannot attract and maintain a significant proportion of non-poor residents cannot expect to become an economically and socially sound, stable community.

The cumulative adverse conditions prevailing in Woodlawn at present, it is argued, are self-reinforcing and the resulting living environment is unable to compete successfully with more attractive communities for moderate- and middle-income residents. At the same time, the existence of Woodlawn as a refuge for the poor perpetuates the inertia on the part of these viable communities in providing

for the needs of low-income families themselves. By pursuing its chosen strategy, WCDC expects to halt this process and provide a basis for eventual growth and stability in Woodlawn while giving others an impetus to respond to the needs of the poor as well.

There is a high probability that WCDC's strategy would result in a new community with a significantly different group of residents--in terms of occupational mix, income levels, and probably racial mix--than the current population of Woodlawn. In this sense, it may be argued that the consequences of WCDC's strategy for redevelopment may be unfavorable to the welfare of Woodlawn's current residents. On the other hand, it may be argued that the strategy WCDC has adopted in full awareness of its probable consequences, is the only way to make Woodlawn a viable community. In our conversations several WCDC staff members have shown keen awareness of both sides of this issue and have indicated serious concern for securing the sanction of the community. Their argument in support of the strategy adopted is plausible and their strong commitment to the community enhances both the prospects for success and the probability that the long-run benefits of redevelopment would provide some opportunities for lower income groups that do not currently exist and probably would not exist in the future if Woodlawn were to be redeveloped by a purely private concern. If the development were carried out successfully, WCDC would also stand a reasonable chance of generating a source of discretionary funds which would provide greater flexibility in terms of program choices.

The value of such redevelopment depends on the changes which would occur in Woodlawn as a <u>place</u> and in Woodlawn as a community of <u>people</u>. It is too early to determine the relative effect of WCDC's approach on both these dimensions, although indications are that a relatively greater impact would occur on Woodlawn as a place, at least in the short run. The extent of benefits and number of Woodlawn's current residents that would benefit in the long run cannot be assessed at this stage. One of the deciding sets of factors, clearly, will be the strength of TWO/WCDC's roots in the community and the community's responsiveness to TWO/WCDC's actions.

2. <u>Other Activities of REPDD</u>

Although the demonstration site is the first priority within the Real Estate Planning and Development Division, a considerable level of effort is explicitly devoted to generating other activities. A major objective of efforts in real estate development is to replenish and upgrade the housing stock in Woodlawn in a manner which will generate unrestricted monies for TWO/WCDC. Discussions with the director strongly suggest that the strategy being implemented is consistent with this

objective. Specifically, all of the activities in firm planning with REPDD at the present time are expected to generate some positive income, either through profits or fees.

Current plans concern the possible formation of two joint ventures for the purpose of developing two housing complexes under the Section 8 Leasing Program. One possibility is a joint venture on the development of 200 new units of housing. Three possible sites have been identified and are currently being studied. The other possibility concerns the formation of a joint venture to undertake the rehabilitation of a large hotel which would result in roughly 300 units of housing for the elderly.

The Division is involved, also, in two new housing rehabilitation packages, in addition to overseeing the final stages of the 101-unit package referred to as Redevelopment II. One of these is owned and sponsored by the 65th Street Development Corporation, a group of residents and property owners who organized themselves in 1967 for the purpose of rehabilitating several scattered buildings. WCDC was asked to coordinate the development, which now consists of 87 units in six buildings, and to provide technical assistance, for which WCDC would receive a fee. The other rehabilitation project, consisting of 85 units, is being undertaken on a limited-dividend partnership basis, with WCDC as the general partner. The 65th Street Development Corporation's project and the two rehabilitation projects will be turned over to WCDC's Property Management Division upon completion for management on a fee for service basis.

3. Housing Rehabilitation

Present organizational arrangements include "Redevelopment II," the only rehabilitation project undertaken to date, as a component of the WCDC Real Estate Management Division. Rehabilitation projects undertaken since the beginning of 1974 are planned and developed by the Real Estate Planning and Development Division and subsequently are turned over to the Management Division for marketing, rent-up, and management.

During the evaluation period, work on Redevelopment II, consisting of 101 units of low-income housing, was in process. HUD approval of the project for mortgage insurance under the 236 program was received in August 1972 and in March 1973 the contract to the general contractor, a local minority contractor, was made. Between May 1973 and July 1974, the rehabilitation project required more attention and consumed more key staff time than in the months preceding construction. The greater emphasis accorded this activity is attributable partly to the normal increase required once the development stage reaches the point of construction and partly to the necessity of dealing with problems which arose.

Milestones and Achievements

Table 10 represents the achievements of TWO/WCDC with regard to housing rehabilitation relative to the targets projected.

Table 10

HOUSING REHABILITATION - SELECTED MILESTONES AND ACHIEVEMENTS

Milestone	Actual		Expected		Actual	
	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
1. Number of units scheduled for rehabilitation	101		86		86	
2. Number of units rehabilitated (completed)	0	0	101	101	0	0
3. Rental income		$14,300		$58,520		0

Note: Additional milestones were established for: number of scattered properties owned with buildings and vacant, number of units owned vacant and occupied, average rent per unit per month upon occupancy, total estimated development cost of Rehab Package, operating expenses on Rehab, and net income.

Although it was anticipated that all 101 units in the rehabilitation package would be completed and occupied by June 1, 1974 (50 percent by February 1, 1974), as of September, 1974, none of the units had been turned over to TWO/WCDC by the contractor. Since none of the units were available for occupancy during our evaluation, rental income was not generated and operating expenses were not incurred.

The major difficulties arising during the evaluation were the result of problems with the general contractor. The contractor, described as the best minority contractor in terms of quality of construction, apparently had difficulties in following the specifications and also in scheduling and completing work in order to meet the stipulated construction time. The latter problem is one that frequently occurs when a contractor takes on commitments beyond his capacity over a given period of time and then finds he cannot spread the resources available to him sufficiently to meet his responsibilities. The director of REPDD indicated that the problem was compounded in this case because the 12-month construction period initially stipulated was not realistic: 15 to 20 months would have been a more reasonable expectation.

The consequence of this combination of circumstances was that none of the units had been completed by May 15, 1974 when the contract was to expire. A three-month extension was granted, but when none of the units had been completed as of that date, serious consideration was given to invoking the penalty clause. A resolution of this problem had become particularly pressing since the bulk of the contingency fund, which could ordinarily be used to cover unanticipated interest expense on the interim financing, had already been allocated. Consequently, TWO/WCDC requested and received approval from FHA to increase the mortgage by approximately $100,000 to cover change-orders and excess interest expense required to extend the construction contract until December, 1974.

The total costs incurred by the general contractor on this project for work completed as of July 26, 1974 were $1,081,333 including builder's overhead and profit. Work completed as of that date represents 82 percent of the total, as measured by total cost budgeted for construction. If the actual total costs incurred upon completion of all 101 units did not exceed the budgeted costs of construction inclusive of builder's overhead and profit, the average construction cost per unit rehabilitated would be approximately $13,000. However, given the costly changes and delays, this estimate is probably on the conservative side.

B. Real Estate Management Division

WCDC's Real Estate Management Division was established as an organizational component in July of 1973. At present, it is treated as a subsidized component of WCDC, eventually expected to generate profits. This division is responsible for the management of residential, commercial, and industrial investment property owned or operated by TWO. The Property Management Director's duties include the arrangement for maintenance, reconditioning, leasing, rental collection on occupied properties, and record keeping on mortgage loans, taxes, insurance premiums, and rental income. The director also counsels the organization on matters concerning financing, purchasing, and selling of property and handles real estate appraisal, mortgage financing, and the preparation of various forms utilized in the processing of FHA loan applications.

Prior to July, 1973, management functions pertaining to properties owned by TWO were performed on a low priority basis and were loosely organized under TWO Management Corporation. By the time milestones were being set, real estate management had assumed a new position with higher priority, reflecting the culmination of several factors. The most significant factor was the new program direction taking shape within TWO/WCDC. Priorities were restructured to reflect the emphasis

on developing a comprehensive approach to the redevelopment of Woodlawn on a large scale, three primary areas of concern emerged: real estate development, real estate management, and financial affairs. It was determined that extensive staff support would be concentrated in these three areas.

During the year for which performance is being evaluated, the Property Management Division's major priorities were the implementation of a remedial management plan for Woodlawn Gardens and the development of a marketing strategy for Jackson Park Terrace.

Milestones and Achievements

Experience with property management during the first year of this study, July 1972 to July 1973, was rather limited in scope. During that year the management entity was responsible for the performance of routine accounting tasks. All decision making, concerning utilization of properties was carried out by joint discussions of key staff.

When milestones were being set, however, plans concerning the responsibilities and performance of Property Management as an organizational component were indicative of the new importance attached to this activity by TWO/WCDC staff. Expectations in the year for which performance was evaluated reflected the first phase of WCDC's goal of establishing a Management Division with the demonstrated capability of managing property on a large scale. Selected milestones and achievements are shown in Table 11.

The general picture is one of a shortfall in achievements relative to anticipated levels of output. In the case of occupied residential units under management and rental collections from scattered sites, the lower level of output is due to circumstances outside the direct control of the Management Division. Due to the failure of the contractor to perform according to schedule on Redevelopment II, the units were not turned over to Property Management for rent-up. Consequently, the rental income from these units, anticipated on some units as early as February 1974, was not generated. Also, since Jackson Park Terrace was not completed when anticipated, the commercial space in the development was not available for leasing by the Management Division.

The major expansion of the Division's scope of activity during the last year involved the assumption of management functions for Woodlawn Gardens apartments as anticipated. Rental collections from Woodlawn Gardens, $667,000, slightly exceeded the level targeted for the year, $654,700. The increase resulted in part because there were fewer vacancies during the year than anticipated. Part of the success

Table 11

PROPERTY MANAGEMENT - SELECTED MILESTONES AND ACHIEVEMENTS

Milestone	Actual		Expected		Actual	
	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
1. Number of residential units managed	193		700		674	
a. Occupied	19		590-600		522	
2. Square feet of commercial space under management	134,470		136,870		134,470	
a. Occupied	106,790		117,990-128,000		91,284	
3. Gross rental collections ($)		171,206		904,000-907,000		821,966
4. Fees earned at 3% of collections ($)		0		27,120		0

Note: Additional milestones were established for: number of owned properties managed (residential, commercial, vacant), gross rental collections by site, rent arrearages by site, and tenant turnover by site.

in meeting this milestone should be attributed to improvements in billing efficiency and tenant-management relations. The successful implementation of a computerized aged accounts receivable billing system for Woodlawn Gardens is a particularly noteworthy accomplishment of the Management Division during the evaluation, which is not reflected in the milestones, as is the establishment of an interim agreement with HUD on the financial status of Woodlawn Gardens.

In commercial space management, the achievements during the year relative to expectations were disappointing. At the time milestones were set, WCDC management anticipated that a total of 24,000 square feet would be leased to commercial tenants in the remainder of the property which TWO/WCDC owns, and partly occupies, by July 1, 1974. However, during the year several tenants vacated the premises and no additional space was leased. Commercial space in the property was leased to only one small tenant. As a result, rental income from commercial tenants was also considerably less than anticipated. This shortfall in rental income was particularly costly to WCDC in view of other factors. Tenants vacating the property during the year did so with high arrearages in rent. In addition, operating costs for the year turned out to be significantly higher than anticipated when the property was purchased in January 1973.

The poor experience with this property seems to be due to a number of factors. First, the prospects for leasing space on East 63rd Street were, and are, extremely poor. Second, the allocation of the Property Management Division's time in accordance with program priorities resulted in the total absorption of time and effort in other activities, primarily Woodlawn Gardens and Jackson Park Terrace. Thus, when tenants left, little effort was devoted to securing new occupants. A third factor was the recognition that it would not be feasible to lease space successfully to commercial tenants until renovations were made.

The other major commercial leasing milestone set was for the Woodlawn Gardens Plaza. At the time milestones were set, it was expected that a major tenant would be occupying 70 to 80 percent of the leasable area by July 1, 1974. At a minimum, WCDC expected that a firm and final commitment would have been secured from the major tenant, in which case the mall would be 70 to 80 percent vacant pending move-in of the tenant.

As of July 1, 1974, negotiations were in process with a private group of medical professionals, although a final lease agreement had not yet been reached. The particulars of the developments with respect to the mall during the last year are contained in the discussion of Woodlawn Gardens.[1] It should be noted here, however, that HUD approved the plan and one lease had been signed as of October 1974. Occupancy was projected for February of 1975.

Fees for management services were not generated during the milestone year, although some had been anticipated. Current expectations are that fees will be earned, at 3 percent of rental collections, as housing units are turned over from the Real Estate Planning and Development Division to the Property Management Division.

Despite the shortfall in milestone achievement, the establishment of the Management Division and the apparently successful assumption of management responsibility for Woodlawn Gardens housing--within one year's time--are significant achievements. The changes we have observed between the ad hoc management activities of TWO/WCDC during the first year of this evaluation and the professional management capability which developed during the second year are strong indications of marked improvement.

C. Commercial Enterprises Division

This division is comprised of actual or potential profit-making entities of WCDC: TWO/Maryland Theatre, TWO/Security Patrol, Inc., Observer Publications, Inc., and TWO/Hillman's Supermarket.

1. See Chapter 5.

1. TWO/Hillman's Supermarket

TWO/Hillman's was incorporated on July 9, 1970 and began retail operations on November 18, 1970. The store leases 14,000 square feet of space from the subsidiary of TWO/WCDC which owns the Woodlawn Gardens Development. Two-thirds of the common stock is owned by T.W.O. Enterprises, Inc. and the other one-third of the common stock is owned by Hillman's, Inc. The latter is the major supplier of the groceries sold in the supermarket and provides management services for which it is paid a fee of three percent of net sales.

Throughout the evaluation, TWO/WCDC has monitored the progress of TWO/Hillman's steadily. Emphasis on this entity as reflected by allocation of key staff time has probably decreased since the first year of operation but has remained relatively constant throughout the relevant time period.

Milestones and Achievements

Performance during the evaluation year is shown in Table 12.

Table 12

TWO/HILLMAN'S SUPERMARKET - SELECTED MILESTONES AND ACHIEVEMENTS

	Actual		Expected		Actual	
Milestones	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
1. Volume of sales ($)		3,703,730		3,700,000		4,030,340
2. Net profit ($)		25,820		20,000		41,415
3. Retained earnings (deficit) ($)	(16,860)		3,140		24,555	

Note: Additional milestones were established for: annual rental paid to TWO/KMF Development Association and management fees paid to Hillman's, Inc.

The actual volume of sales of TWO/Hillman's exceeded expectations by approximately nine percent. Gross profit for the two years shown held relatively constant at approximately 20 percent of gross sales, while net profit increased from .70 percent of gross sales to 1.03 percent. Thus, while a decline in operating profits from .70 percent to .54 percent was expected, the actual accomplishment significantly exceeded the projection. Since gross profits as a percentage of sales did not change significantly, the increase in profits seems largely attributable to increased efficiency of operations. That is, with a relatively constant gross profit margin of 20 percent of gross sales, operating expenses as a percentage of

gross profit were reduced from 96.57 percent for the period July 1, 1972 to June 30, 1973 to 94.87 percent for the period July 1, 1973 to June 30, 1974. Given recent national experience with respect to rising costs, this performance is particularly noteworthy.

2. Maryland Theatre

Donated to the Woodlawn Organization in early 1971, the TWO/Maryland Theatre constitutes the third component of the Commercial Enterprises Division of WCDC. Current movies are shown as well as special films of particular interest to the black community. The threatre operates a concession stand in the lobby and seats 1,468 people.

Milestones and Achievements

Achievements relative to milestone targets for the Maryland Theatre during the year for which performance is being evaluated are shown in Table 13. The figures indicate that although revenues fell slightly short of the targeted level, the proportion of revenues required to meet expenses was somewhat lower than anticipated. Consequently, the table shows a net income which exceeded the projected level. The major increase in operating expenses over the two years resulted from a sizable increase in real estate taxes, a factor largely outside of management control. The Theatre was successful in absorbing this increase because of its ability to raise revenues significantly higher than the previous year. On the whole, experience during the evaluation year represents an improvement relative to expectations.

Table 13

MARYLAND THEATRE - SELECTED MILESTONES AND ACHIEVEMENTS

	Actual		Expected		Actual	
Milestones	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
1. Revenues		$372,438		$450,000		$440,364
2. Expenses		376,295		444,150		432,695
3. Net profit before income taxes (loss)		($3,857)		5,850		7,669

Note: Additional milestones were established for: price of admission (adults and children), net profits as a percent of revenues (loss), and number of full-time and part-time employees.

3. TWO/Security Patrol, Inc.

The third component of the WCDC Commercial Enterprises Division, the TWO/Security Patrol, has been offering its guard service on a contractual basis since May of 1969. The need for protection of equipment used during the construction of Woodlawn Gardens prompted the formation of this entity. In August of 1971, the operation was incorporated and procedures required to obtain a state license were initiated. The major qualitative accomplishment of the Security Patrol during 1974 has been the completion of stringent guard training required by the state in order to obtain a license. Insured and bonded, the Patrol is now licensed by the state as a private security force.

In terms of priority, this entity seems to have undergone a decline in emphasis comparable to that in the other three entites comprising the Commercial Enterprises Division of WCDC. That is, in shifting emphasis away from business and commercial enterprises to projects of scale in real estate, the Security Patrol has been accorded a status of lower priority than before this shift occurred. Since that time, it appears that this entity (along with the other three) has operated with a relatively low, but consistent, degree of emphasis by key CDC management staff.

Milestones and Achievements

Performance during the evaluation year is shown in Table 14.

Table 14

TWO/SECURITY PATROL, INC. - SELECTED MILESTONES AND ACHIEVEMENTS

	Actual		Expected		Actual	
Milestones	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
1. Number of contracts secured	10		7		8	
2. Volume of sales		$93,710		$200,000		$199,671
3. Net profit (loss) before income taxes		($10,903)		$ 23,000		$ 14,587

Note: Additional milestones were established for: total expenses, wages and salaries, and number of employees.

As shown in Table 14, the achievements over the milestone period correspond quite closely to the targeted levels of achievement except in the case of net profits. The reasons for this shortfall are hard to discern due to the lack of

consistent historical data based on contracts, receipts for services and expenses for this activity. Furthermore, the figures shown in the table represent accounts recorded on a cash, rather than accrual, basis. This may account for part of the shortfall in net profits.

Based on the figures shown, however, the Security Patrol definitely improved its financial position during our evaluation relative to the prior year. Since the proportion of total expenses for wages and salaries, the major expense item, changed very little over the two years, it is clear that the drastic turn around in the financial status of this entity resulted from a large increase in revenue receipts. A large part of this increase is attributable to the payment of the prior amount due for services rendered by the Security Patrol on the Woodlawn Gardens development. Prior to the year ended June 30, 1974, payments due from Woodlawn Gardens were carried as accounts receivable by the Security Patrol because of the inability of Woodlawn Gardens to carry the costs of guard service.

The primary constraint affecting the financial status of the Security Patrol since its inception has been the imposed subsidization of Woodlawn Gardens. The major new opportunity which the Patrol was able to capitalize upon was presented by the construction starts on the two major housing activities of TWO/WCDC during this period: Redevelopment II and Jackson Park Terrace. It should be noted that this is an illustration of an important advantage characteristic of the CDC as an institution: the ability to internalize interdependencies among different activities. On the other hand, the experience with Woodlawn Gardens points out the potentially dangerous aspect of such arrangements, i.e., the failure of one entity may significantly impair the viability of another component of the CDC.

4. Observer Publications, Inc.

The Woodlawn Observer newspaper was created in 1964 to serve as a vehicle for disseminating news of TWO's activities throughout the community served. While continuing to publicize TWO's involvement in community concerns, each weekly issue of the Observer now covers other local news and events as well. In 1964, 5,000 issues per week were printed and circulated on the average.

Milestones and Achievements

Due to the low priority accorded the Observer relative to other activities and its precarious financial status, the future of the Observer was uncertain at the time milestone targets were being chosen and set. Consequently, target levels of achievement were not set for this entity.

It should be noted, however, that although this activity has not been designated by CDC management as one of high priority, considerable time was devoted to improving the financial position of this entity (particularly that of one key staff member) in the latter part of 1972 and early 1973. It is probably true that one of the consequences of this drain on staff time (along with the time spent on Woodlawn Gardens and Standard Oil) was the delay of the development and implementation of a consistent financial management system for all of the TWO/WCDC entities. This is an important illustration of how allocation of key staff time in response to existing problems can result in insufficient attention devoted to other activities of higher priority.

The successful turn-around of the Observer has prompted plans to expand operations to more general "communication art." The Observer itself may be expanded into an independent publishing company. In addition, a new Communications Division has been established as part of WCDC which will begin publishing in-house reports, hold cultural workshops, etc. Currently, this division carries a one-half hour radio program per week.

D. Manpower Division

The history of TWO's involvement in the area of manpower problems begins in 1964--a time which marked the early movement of TWO's orientation from one of protest toward one of programs. The information here focuses on TWO/WCDC manpower activities during the last two years. This particular period marks an important stage in the evolution of the role of manpower activities as a component of the overall strategy of the CDC.

Questions concerning the strategy and impact of a "crisis-oriented" CDC versus that of an "economic development" CDC were raised and debated early in 1973. In the course of this turmoil there were some who advocated the position that job development, training, and placement activities were characteristic of a crisis orientation and did not result in long-term positive impact in the community--people tended to leave the community as soon as they were able. Given limited staff and financial resources, as well as the constraints imposed by various funding sources, questions concerning whether or not to continue efforts in the area of manpower, and if so, at what level of effort, were seriously debated. As evidenced by the number of new manpower training programs now under way, it is clear that the decision was made to include manpower programs as a supporting component of the new strategy for large-scale development of Woodlawn.

The current activities of the Manpower Division are formally carried out by The Woodlawn Career Vocational Institute. All of the training programs conducted

by WCVI are institutional and have been funded by the Manpower Development and Training Act (MDTA) through the Board of Vocational Education and Rehabilitation of the State of Illinois on a cost-reimbursement basis. No other training programs were conducted during the period July 1, 1973 to July 1, 1974.

Table 15 shows the achievements of WCVI relative to selected targeted levels during the evaluation year as well as the accomplishments of the prior year. By successfully reducing trainee terminations, the clerk-typist training program graduated seven more people than projected. In addition, job placements exceeded expectations by nearly 44 percent. Performance on the two programs shows marked improvement in terms of graduates, and especially placements, as a percentage of enrollees. In the first year, approximately 61 percent of the enrollees were graduated and only 30 percent were placed in jobs, whereas in the second year, about 77 percent of those enrolled were graduated and 100 percent of these were placed in jobs compared to only 50 percent of the graduates in the prior year. If we assume the maximum allowable expenditure as stipulated by the contract, the cost per graduate/placement over the evaluation year was $983.

Table 15

MANPOWER DIVISION - SELECTED MILESTONES AND ACHIEVEMENTS

Milestones	Actual 7/1/72 to 7/1/73	Expected 7/1/73 to 7/1/74	Actual 7/1/73 to 7/1/74
1. Funding level	$ 92,840	$42,268	$42,268
2. Number of people to be trained	75	50	50
3. Number of graduates	50	36	43
4. Number of placements	25	30	43

Note: Additional milestones were established for: number of people enrolled, number of terminations, and stipends to trainees.

At least part of the improved performance should be attributed to the learning experienced by the manpower staff during the earlier MDTA contract concerning administration and screening and orientation of trainees. The relatively poor performance in placements under the earlier contract was due also to a significant change in the job market during the latter part of the program, largely resulting from layoffs by County Hospital, and the delay of the opening of the Greater Woodlawn Assistance Corporation (GWAC), the new health facility sponsored by TWO.

One of the major objectives not reflected in the selected milestones was the generation of new training contracts. In October 1973, several proposals were in process for submission to the State for funding. At that time, TWO's Director expected

to have final proposals in on at least three new contracts, to train a total of approximately 150 people by January 1, 1974 with the new program starting soon thereafter. As of July 1, 1974, this expectation had been fulfilled well beyond the level anticipated. Six new contracts, to train 215 people, had been secured.

Another training program was conducted by TWO/WCDC, but not within WCVI, during the two-year period. The WCDC Clean and Board Up Contract was an agreement with the Illinois Institute for Social Policy which provided wages to former welfare recipients who would be hired by TWO to clean and board up abandoned buildings in Woodlawn. TWO also agreed to supply all necessary materials for this activity. Reports indicate that 15 Woodlawn residents were employed to clean and board up a total of 37 buildings in Woodlawn. At the time milestones were being set, no further activity on this project was anticipated.

Although it is difficult to quantify the performance of the referral service to community residents, its value should not be overlooked. For example, a black contractor, identified and strongly promoted by TWO, was awarded contracts by the Chicago Transit Authority to paint the el structure running through the center of Woodlawn and to construct a substation power plant. Subsequently, the Manpower Division of TWO referred several people to the contractor for painting and construction jobs.

The ability of the CDC to influence decision making on the city level in this manner and thereby indirectly enhance the likelihood that Woodlawn residents referred to jobs created by the contracts will be hired is illustrative of a significant class of activity in the CDC process--intervention in the production of goods and services undertaken by institutions other than the CDC. That is, in addition to direct production activities, CDCs also engaged in a set of activities designed to create a more conducive opportunity/constraint structure in the environment.

One of the major constraints affecting the effectiveness of the manpower effort in general, according to TWO's Director, is the nature of national manpower policy. That is, national manpower programs are designed to address only one of the crucial aspects of the employment picture: skill training and upgrading of individuals. Another important aspect which is not currently addressed, particularly in terms of provision of funding, is the development and analysis of skill inventory relative to job inventory in the local area over time. The potential impact of manpower programs could be significantly increased if these two aspects--skill training and skill/job inventory--could be integrated. Past and

current MDTA contracts do not even provide funds for job development activities required to place the graduates of a given program.

E. Community Services Division

The Community Services Division of WCDC encompasses two activities: the Greater Woodlawn Assistance Corporation and the Black Adoption Agency. The latter is a new program which began operation in July 1974. Consequently, this section reports only on the performance of the Greater Woodlawn Assistance Corporation.

1. Greater Woodlawn Assistance Corporation

The idea of providing health services to Woodlawn residents through a Health Maintenance Organization (HMO) originated in TWO's Model Cities Plan in 1968. An HMO is basically an organized health care delivery system designed to serve a defined population (those in the community who enroll on a prepaid basis) with a complete range of quality health services. When this evaluation began in the summer of 1972, GWAC was still in the planning stage.

Funding for planning was obtained from the Department of Health, Education, and Welfare ($45,000) and the State of Illinois Institute of Social Policy ($100,000). The Office of Economic Opportunity also agreed to provide $710,000 in 1972: $100,000 for equipment, $250,000 for renovation and/or construction of a facility and $360,000 for operational and administrative expenses.

The official opening took place on July 16, 1973 at what was then expected to be the temporary location of the facility on East 63rd Street. Plans were under way for the renovation of Woodlawn Gardens Plaza, the intended permanent site for the center. The services of the health center were designed to promote both primary and preventive health care by the provision of a comprehensive package of medical services to those families enrolled in the program, including general physical examinations, dental care, psychiatric consultation, and ophthalmological services.

When the center began servicing clients in late July about 2,000 people had been pre-enrolled in the program in anticipation of an agreement with the State of Illinois on a capitation plan. At opening, the state had not yet issued its guidelines for capitation. Prior to capitation, GWAC was to operate on a fee for service basis. Once capitation plans were formulated, GWAC would receive a flat sum per enrollee per month in exchange for the provision of a specified package of services to be provided as needed to each enrollee.

Milestones and Achievements

At the time milestones were set, there was considerable uncertainty surrounding the future of the health center. One factor was that the state's position on capitation guidelines remained unsettled. A second unresolved issue concerned the feasibility of renovating the Woodlawn Gardens shopping mall to accommodate a full-scale HMO on a permanent basis. Finally, the Nixon Administration was attempting to dismantle the Office of Economic Opportunity at this time and OEO officials could not guarantee the funds reserved for GWAC, partly because responsibility for the HMO program was already in a state of transition from OEO to HEW.

Despite these difficulties, milestones were set in accordance with expectations of TWO and GWAC's staff. The targets reflected achievements which were deemed necessary if the HMO was to survive beyond the year for which performance is being evaluated. Selected milestones and achievements during the evaluation year are shown in Table 16.

Table 16

GREATER WOODLAWN ASSISTANCE CORPORATION - SELECTED MILESTONES AND ACHIEVEMENTS

Milestones	Actual		Expected		Actual	
	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
1. Number enrolled	2,013	[a]	5,000		954[b]	
2. Staff	14		31		13	
3. Average number of visits per week	42.25		200		67	
4. Total revenue				$208,000 (Average $20 visit)		$ 21,480 (Average $7.26 visit)
5. Total expenditures				$210,000		$253,669

[a]Not operable during this period. [b]Registered. Note: Additional milestones were established for: funding available and net income (loss).

Based on the figures shown, the experience of GWAC clearly did not reach the anticipated level of performance. A number of substantive changes in the operative framework for this entity have occurred, however, and as a result, straightforward comparisons between targets and achievements do not lead to as meaningful an interpretation of performance as would otherwise be the case. It should be noted, also, that the interpretation of performance for this particular activity is somewhat limited by the lack of any comparative standard, i.e.,

there are no previous years of experience for GWAC itself and we have no data on HMOs operating in other communities with similar population characteristics.

The first mitigating factor relates to the targeted number of enrollees. The figure shown in the table for enrollment as of July 1, 1973 actually reflects the number of people GWAC had pre-enrolled in anticipation of imminent capitation. During the year, however, it was discovered that pre-enrollment was not legal and had to be stopped. As of July 1, 1974, therefore, there were no enrollees; instead, there were 954 people enrolled in the Mid-Southside Health Services Plan, Inc., the state chartered HMO, who elected to register with GWAC as their medical group. As of that date, GWAC became one of several private group practices contracting with the HMO to provide health services.

During much of the year for which performance is being evaluated, therefore, the operative environment for this entity was in a state of flux. Consequently, the health center scheduled patient visits and served walk-in patients on a day-to-day basis without reference to a defined service population and without a capitation contract with the state. The administrator of GWAC indicated that during the year 2,958 patient visits were handled by the center, about 268 visits per month or 67 per week. The cost of operating GWAC during this period was $253,669. Thus, the average cost per visit was approximately $85.76. It should be noted that these operating costs were not absorbed by GWAC since OEO's grant provided for reimbursement.

Since capitation did not occur during our evaluation, GWAC's sole source of earned revenue was fee collection from patient visits. As evidenced by the extremely low level of revenue GWAC was able to collect, it is clear that capitation had to become a reality for GWAC to survive. At the expected capitation rate of $15 per enrollee, GWAC would need approximately 2200 enrollees registered under its center to generate revenues sufficient to match the current level of the HEW subsidy for the year beginning July 1, 1974, $398,584. Given enrollment data for only two points in time--954 as of July 1, 1974 and 1020 as of July 31, 1974--it is difficult to assess the prospects for achieving an enrollment of 2200 by June 1, 1975. As of this date GWAC is expected to be self-supporting on the basis of the capitation payment plan and some fees for services. An average of 118 new enrollees per month would be required to meet this goal.

In the long run, it may turn out that GWAC is much better off as a private group participating in a network than as an individual HMO. There are at least two observations which can be offered in support of this. First, the poor

experience of GWAC during the last year in generating revenues is a clear sign that direct payment patients could not support operations. A second relevant observation was offered by Gorden McCloud, former Director of HMOs for HEW, to Stephen Price of K. S. Sweet Associates in November, 1973:

> . . . there has been little experience with HMO's whose client population could be characterized as exclusively "ghetto" residents. Typically, HMO's build on a base of middle-income residents or industrial workers and attempt to expand services to lower-income families, usually with limited success.[1]

F. TWO - Community Organization

In this section the current activities of what was once the only component of the Woodlawn Organization are discussed. Although the shift in emphasis between the '60s and the '70s, from protest to program to real estate development and management, has brought about significant organizational and allocational shifts in response to changing priorities, the Community Organization component remains an integral part of the Woodlawn CDC. The major objectives of this component are:

(1) to maintain, protect, and build a strong and viable community base, that base being defined as the sum total of residents of the community who recognize its viability or potential viability and who are either members of TWO or pledge some sort of allegiance to the Organization;

(2) to generate a high degree of involvement and to mobilize action around problems and issues within the community; and

(3) to enhance the viability of WCDC's ventures through the utilization of the community organization base.

Operationally, the achievement of these goals is sought through activities implemented by the staff of TWO in four major areas:

(1) Neighborhood Organization;

(2) Environmental Action Program;

(3) Tenant Awareness Program; and

(4) Social Services.

During the last year, these activities were funded primarily through three grants: approximately $141,325 from the Ford Foundation, roughly $10,969 from ACTION/VISTA, and about $8,500 from the Methodist Church. The other source of revenue, generated directly by TWO, is TWO's fund raising campaign which takes place in conjunction with the Annual Awards Banquet. According to the Income Statement for TWO for the period July 1, 1973 to June 30, 1974, approximately $47,000 was raised, although some of this would have been used to cover part of WCDC's expenses. Through the efforts of the Community Organization staff, other

1. From Technical Advisor's Report, November 1, 1973.

funds are mobilized for direct expenditures on activities (by the funding source itself) which are of plausible benefit to the Woodlawn community. One example is the dollars spent by the Boys Club on youth programs developed in conjunction with the Tenant Awareness Program for Woodlawn Gardens.

As in the case of the Restoration Corporation's Area Development programs, most of the activities of this component of TWO/WCDC are directed toward intervening in the activities of external institutions in order to bring about improved services/conditions for the community, or providing individuals/groups with information on accessibility and use of services, or directly assisting the individuals/groups in obtaining particular services. The relevant output which results from these kinds of efforts is difficult to determine since they show up in changed attributes or activities of the "other" party, be it an institution, an individual, or a group. For this reason, knowing that 400 people were served by a particular social service program is less useful in interpreting its performance than knowing that 400 units of housing were rehabilitated when assessing performance on a rehabilitation project.

Since its inception, TWO's Community Organization component has designated neighborhood organization as its first priority. TWO's efforts in this area focus on maintaining the active involvement of the member organizations, referred to as "the Federation of TWO." These block clubs, civic groups, church groups, businessmen's associations, and tenants' unions make up the community base TWO regards as vital to its continued viability as a community organization. The members of these organizations elect the Chairman of TWO's Board, who also serves as the Chairman of WCDC's Board, and other officials of TWO. In addition, a certain number of delegates are selected from each member organization to serve on the Delegates Body, the major policy making component of TWO.

The second major area of involvement of the Community Organization component during the evaluation year was the Environmental Action Program. The EAP subsumes many general categories of activity that have received attention from the Community Organization staff for the past several years; in 1973 these activities were organized under one program which was to concentrate efforts to manage external environmental factors in the specific area of Woodlawn where major redevelopment was about to come under way. In fact, the EAP was, and is, viewed as an essential ingredient of the ultimate success and viability of WCDC's Real Estate Development projects which will depend heavily on the overall quality of the environment. There are six areas of concentration within the Environmental Action Program:

(1) building demolition and code enforcement,
(2) education,
(3) crime prevention,
(4) transportation,
(5) sanitation services, and
(6) fire prevention.

Milestones for the evaluation year were chosen for only two of these areas, education and building demolition and code enforcement.

The third major area of activity during the evaluation year concerned the Tenant Awareness Program for Woodlawn Gardens. There were two major objectives of TAP during our evaluation: (1) to involve residents in the discussion of management problems and the implementation of decisions on how these problems should be treated and (2) to develop educational, recreational, and social activities to involve the residents.

A representative sample of milestone targets and achievements for these three areas of activity is shown in Table 17. The figures indicate that the Community Organization component succeeded in meeting targeted milestone levels for the most part. Our discussions with the staff of TWO and the information we gathered about their efforts to mobilize action around community problems and issues showed strong concern for generating involvement and delivering results to the community. This is an important aspect of performance not reflected in the milestones shown.

The final major area of activity of the Community Organization component was the Social Services Program. The activities here focus on: (1) direct interventions made by Community Organization staff, on behalf of residents, with municipal departments and (2) other assistance provided to residents who are experiencing some problem with social service delivery. Milestones were not established in this area, although some measure of accomplishments for the relevant time period has been provided. During our evaluation, the staff handled and reached some resolution on 400 complaints pertaining to housing, 1600 pertaining to a variety of municipal services, and 975 pertaining to welfare.

It should be noted, also, that aside from the activities under the Environmental Action Program, TWO's Community Organization staff expected that a considerable portion of their time would be spent on securing the sanction of the community for WCDC's overall redevelopment strategy, primarily through a series of meetings on different levels of the community. These efforts were not necessary because redevelopment plans were subsequently limited to a demonstration project. The Community Organization component was utilized, however, as the vehicle for informing the residents of Woodlawn of the reasons why Jackson Park Terrace's rent schedule would be so high.

Table 17

COMMUNITY ORGANIZATION - SELECTED MILESTONES AND ACHIEVEMENTS

Milestones	Actual		Expected		Actual	
	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
Neighborhood Organization						
1. Number of neighborhood organizations	124		124		124	
2. Average number of active members per organization	20		20		20	
Environmental Action Program						
1. Participation of parents in education process						
a. Number of organized parent councils affiliated with TWO	8		13		10	
2. Funds leveraged from Board of Education						
a. Capital improvements for 1 school			$350,000		$604,788	
3. Building demolition code enforcement						
a. Number of buildings demolished			16		46	
Tenant Awareness Program						
1. Number of residents being served				362		1,700[a]
2. Average number of tenant meetings held per month	11		23		16	
3. Average number of residents attending per month	99		467		445	
4. Youth Training and Development Summer Program						
a. Number of youths aged 8-18 involved				750		750

[a]Total resident population. Note - Additional milestones were established for: (EAP) number of parent meetings per month and average number of parents attending per month; (TAP) number of residents being served, funding (stipends to VISTA volunteers and salary of supervisor), number of VISTA volunteers working on program, (GED Programs) number of people served, Model Cities funds (salary of teacher), monthly newsletter circulation, (Community Resource Information Program) number of outside speakers, imputed value of services at $50 each, and total funds leveraged for TAP from outside sources (excluding VISTA).

Early Childhood Development Center

Since January 1968, the Early Childhood Development Center (ECDC) has conducted Head Start Programs as a Delegate Agency authorized by the Department of Health, Education, and Welfare, Office of Child Development. Funds for this program are channeled through the local Model Cities organization known as the Chicago Committee on Urban Opportunity.

Milestones and Achievements

ECDC's contract with HEW covers a one-year period from September 1st through August 31st. Six classes are conducted on Mondays through Fridays, in two sessions lasting three hours each. Children attending these classes range from three to five years of age. According to the information provided, all of the families benefiting from this program reside in the Woodlawn community.

During the year for which performance is being evaluated, ECDC achieved its expected level of output. The contract with HEW was renewed. The shortfall in the number of children actually served is due to the fact that the maximum capacity which the facility can handle is 110 children, although HEW has stipulated 132 children in past contracts. The contract now reflects the realistic capacity.

Table 18

EARLY CHILDHOOD DEVELOPMENT CENTER - SELECTED MILESTONES AND ACHIEVEMENTS

	Stock			Flow		
	As of 7/1/73	Expected as of 7/1/74	As of 7/1/74	7/1/72 to 7/1/73	Expected 7/1/73 to 7/1/74	Actual 7/1/73 to 7/1/74
1. Contracts awarded				$151,501	$146,749	$150,032
2. Number of children served	132	132	110			

Note: Additional milestones were established for: volume of contracts awarded since January 1968 ($), number of Woodlawn residents employed full- and part-time.

If we assume that the total cost of the program is approximated by the maximum allowable cost-reimbursement specified in the contract plus the imputed dollar value of ECDC's contribution of services in-kind (volunteers, financial, and administrative duties), an estimate of the average cost per child served can be derived. Total cost would be approximately $190,000 under this assumption, so the average cost per child would be about $1,727 if 110 children participated in the program.

It is worthwhile to note that one of the primary benefits of an activity of this sort is the additional income that may accrue to the families served because both parents are able to work. For example, if the existence of ECDC permits a parent to work only three hours a day, year round, for a wage of $3.00 per hour, that family would generate additional gross earnings of $2,340 per year. Clearly, the benefit-cost ratio in this example exceeds one.

CHAPTER 4

THE ZION NON-PROFIT CHARITABLE TRUST

Introduction

The Zion organization was developed largely through the efforts of the Reverend Leon Sullivan. In 1962 Reverend Sullivan initiated a program involving members of his congregation at Zion Baptist Church in Philadelphia called the "10-36 Plan." Through this plan, his parishioners would invest $10 per month for 36 months in order to build apartment houses, shopping centers, and industrial enterprises. The 10-36 plan met with initial success in the Philadelphia area and led to the initiation of the plan on a national basis. Participation in the program remains, however, largely confined to Philadelphia.

The early Zion emphasis stemmed from Reverend Sullivan's self-help programs, the most successful of which was the Opportunities Industrialization Center (OIC) manpower training program. Initially this program was a mechanism for training local residents for positions in industry. In addition to the funds derived from the 10-36 program, OIC obtained contributions and support from the local business community, in the form of machines with which to train workers and curricula that would prepare people for existing jobs, rather than for jobs which might never materialize. OIC, which also drew support from the federal government, spread to over 70 cities and to some foreign countries.[1] In 1965, Zion Investment Associates (ZIA) was formed as a conglomerate of potentially profit-making enterprises. In the following year (1966) Zion Non-Profit Charitable Trust was incorporated in the State of Pennsylvania, as an umbrella organization for the "social" or not-for-profit programs of Zion. This division between the for-profit entities and the not-for-profit programs is similar to that in Restoration and The Woodlawn Organization. However, the influence of Reverend Sullivan's leadership is still strongly felt in the Zion entities and, consequently, less authority is delegated to individual program managers than is true in Restoration.

Zion received its first grant from the Ford Foundation in 1967 to refine and strengthen its economic development activities. A grant of $400,000 was made to ZNPCT to finance the construction of the Entrepreneurial Development Training

1. We were not asked to evaluate the OIC program in this study.

Center as part of Progress Plaza. By the end of 1970, the Foundation had contributed over $1.5 million, and several contracts with federal agencies had been secured. The non-profit projects administered by the Trust were organized as separate activities, primarily funded by federal contracts. The largest expenditures were directed toward training or assisting minority entrepreneurs.

By the year ending 1971, ZIA sales had reached an annual level of $3.3 million and expenditures administered by the Trust since 1967 had surpassed $5.5 million. However, because of continual yearly losses for ZIA, a reorganization was instituted which entailed the transfer of Progress Property Management System, Progress Construction Company, and Progress Development Services Corporation to the Trust. The main reason for the transfer was to improve the financial position of ZIA, while providing an opportunity for the three transferred entities to develop their profit-making potential with subsidization. During the year for which performance was evaluated, ZIA roughly maintained the earlier sales level and ZNPCT's expenditures were about $2.3 million.

Because of the leadership of Reverend Sullivan and his emphasis on developing various self-help programs as a means of improving the conditions of blacks in Philadelphia and the nation, the relationship between the Zion organization and the community of Philadelphia is different from that of Restoration and TWO and their respective communities. Zion does not serve a community that is as geographically well-defined, nor does it appear to have the level of community input into policy making as in The Woodlawn Organization or Restoration. The primary vehicle for community involvement in the functioning of the CDC has been through the 10-36 program rather than through a federation of community groups as in TWO or through neighborhood centers and local board participation as in Restoration.

In this chapter, we examine the activities and performance of subsidiary organizations of The Zion Non-Profit Charitable Trust (ZNPCT) and, to a lesser extent, its affiliated corporation, Zion Investment Associates, Inc. (ZIA).

Within the Trust, there are seven components. The first three constitute the physical development group of ZNPCT:

(1) Progress Development Services Corporation,

(2) Progress Construction Company, and

(3) Progress Property Management Services.

All three of these entities were designated as potential profit centers by the Trust. Since January 1974, the Trust's leadership has emphasized the construction company and the management company as the most likely to achieve profit generation in the immediate future. The development company is not now considered a profit center.

The remaining four components of the Trust are supported primarily by funds secured from sources other than the Ford Foundation. These entities are:

(1) Progress Venture Capital Corporation,

(2) The Entrepreneurial Development Training Center/OMBE Affiliate,

(3) National Progress Association for Economic Development, and

(4) Progress Education Program.

The first three entities conduct operations in the area of individual minority enterprise and entrepreneurial development. The Progress Venture Capital Corporation, a Minority Enterprise Small Business Investment Company (MESBIC), is engaged in loan and investment activities in minority business while entrepreneurial development and loan packaging activities are primarily conducted by the Entrepreneurial Development Training Center. The National Progress Association for Economic Development is a national center which supervises and monitors the activities of several organizations in other cities which engage in business packaging and loan procurement for minority entrepreneurs in their respective cities. The Progress Education Program was instituted as part of the 10-36 program and is not currently a major activity of the Trust.

The for-profit corporation affiliated with the Trust, Zion Investment Associates, Inc., consists of five subsidiaries at present:

(1) Progress Aerospace Enterprises, Inc.,

(2) Progress Products Company,

(3) Progress Plaza,

(4) Our Markets, Inc., and

(5) Progress Enterprises, Inc.

All of the businesses of ZIA are for-profit operations although profits have not been extensively generated to date. Progress Aerospace Enterprises, Inc. and Progress Products Company are electronics manufacturing businesses. Progress Plaza is a shopping center with commercial space for 19 or 20 stores plus office space, which was occupied by the Trust and one of its affiliates during the evaluation period. Our Markets, Inc., consisted of four chain food stores which did not prove successful. All were being phased out during the evaluation year. Progress Enterprises, Inc., is ZIA's real estate holding company.

A. The Zion Non-Profit Charitable Trust

1. Progress Development Services Corporation

Progress Development Services Corporation (PDSC) is currently a component of the physical development group of The Zion Non-Profit Charitable Trust (ZNPCT).

At present, PDSC is not structured as a separate profit center and does not earn an income for the work performed.

When this evaluation began PDSC was a subsidiary of Zion Investment Associates (ZIA) and constituted one of the potential profit divisions of ZIA's Commercial Group. During the time it was affiliated with ZIA, PDSC conducted two or three feasibility studies and developed one shopping center, all in cities other than Philadelphia. In 1972, plans were being formulated for the development of a second shopping center in Harrisburg, Pennsylvania. During 1972, there was a shift in emphasis from the initial focus on research and feasibility analysis for outside concerns to direct commercial development, particularly shopping center development.

In early 1973, PDSC was transferred from ZIA to ZNPCT, along with the construction company and the real estate management group. The primary reason for this reorganization was that these subsidiaries required substantial financial subsidization over an extended period of time. ZIA was not in a position to provide these funds and its future was being jeopardized by their need for continued support.

The staff's responsibilities encompass all basic development services, including land acquisition, financing, marketing, and coordination of construction. However, final decision-making authority concerning projects to be pursued and all financial commitments and disbursements remains with Zion's leadership.

Milestones and Achievements

In the summer of 1972, PDSC's major activity was the identification and acquisition of a site in West Philadelphia for the development of a shopping center. In addition, PDSC was attempting to secure a refund from the Philadelphia Redevelopment Authority for the funds paid in acquiring land in Harrisburg, Pennsylvania. The shopping center plans there had been discarded because flooding had destroyed many of the homes in the designated trade area for the center.

When milestones were being set for PDSC, three main projects were expected to be under way during the year for which performance was being evaluated: the West Philadelphia Shopping Center, the development of an area adjacent to Progress Plaza, and planning for the large-scale redevelopment of one particular parcel of land. In addition, the funds invested in the Harrisburg Project were expected to be recovered.

In the course of determining milestone targets for the period July 1, 1973 through June 30, 1974, PDSC indicated that most of the effort during the period would be devoted to negotiating land acquisition and securing commitments from

funding sources. Consequently, few tangible outputs were expected to be generated. Therefore, milestone projections for PDSC were intended to reflect current planning rather than achievements to be accomplished within the evaluation period.

PDSC did not reach its milestone targets projected for the evaluation, except in renewing an option on land for an expansion of Progress Center. This is attributable in part to the uncertainties and delays encountered by any organization undertaking activities of a developmental nature, particularly in the early stages of development. However, there are some indications that part of the problem is directly attributable to a general lack of clarity with respect to organizational relationships, policy, and direction which, in turn, has contributed to less than satisfactory fulfillment of functional tasks in some instances. Some of the specific problems are pointed out below.

In early 1973, after nearly one year of negotiations and investigations relating to the initial site chosen for the West Philadelphia Shopping Center, PDSC was informed that the owner had decided not to sell the property. Investigation of the feasibility of a second site, previously identified by PDSC's director, began at this time. Planning for this alternate site, owned by the city, occurred during the evaluation period. Substantial delays were caused by the fact that the Philadelphia Board of Education had secured rights to the land for institutional use, and although their capital budget indicated insufficient funds for new school construction on the site, the Board did not wish to relinquish its option on the parcel. It was not until late spring of early summer of 1974 that the Board of Education finally relinquished its rights to the land and PDSC obtained the required change in zoning from public/institutional to commercial area/shopping center land use. The change in designated use necessitated a reappraisal of the site's value by the Redevelopment Authority which not only caused further delays, but also resulted in a significantly higher purchase price.

The other major area of activity during the evaluation concerned the expansion of Progress Plaza. Reverend Sullivan had suggested that PDSC look into the possibility of expanding the shopping center in early 1973. Shortly before final milestone targets were set, planning for the area adjacent to the Plaza had been changed to focus on the development of a civic center type of facility. The new idea, also conceived by Reverend Sullivan, was assigned to PDSC for feasibility analysis because an acceptable major tenant for a shopping center facility could not be secured.

The major structure to be developed would be a multi-purpose facility with a seating capacity of 5,000 to 6,000 persons which would provide space for concerts and other recreational activities. Other space would be used for banquets and other group functions; office space for a "human resources center" would also be provided. Three other structures to be developed were to provide space for commercial/retail use, a theatre for the performing arts, and a tire center.

When our evaluation team visited Zion in July 1974 to gather information on their actual accomplishments during the milestone period, we were informed that current plans for the area adjacent to the Plaza were to develop a human services center and space for use by the OIC. It was indicated that one request for financing assistance, from the Economic Development Administration, was likely to be approved although problems had arisen with respect to local bank participation in the financing which had to be resolved before further action could be taken. The option held by the Trust on the land was renewed, as expected, in March or April of 1974. Assuming financing could be arranged, it was expected that construction would begin by the spring of 1975.

The third major project PDSC expected to be involved in during the milestone period concerned plans for the major redevelopment of an identified land parcel. Plans for the large-scale redevelopment of the area in North Philadelphia were initiated by Zion's leadership, primarily Reverend Sullivan. When milestones were being set, PDSC had been assigned the task of developing feasibility studies for the designated area, with particular emphasis on the small section chosen for immediate development as a demonstration block. It was anticipated that at least part of the property on this block would be purchased by July 1, 1974 and less certainly, that rehabilitation of some housing in the demonstration area would be under way. These targets were not met during the evaluation period, partly due to a lack of funds for land acquisition.

PDSC did not earn revenues for its internal work during the evaluation because of a decision to maintain PDSC as a staff component of the Trust rather than designating it a potential profit center. The decision was based on the view that PDSC could not be expected to become profit-making in the foreseeable future. In order to do so, additional staff would be required for PDSC to take on external contracts.

In general, PDSC's scope of responsibility with regard to all major projects has been unclear throughout the evaluation period. It appears that PDSC has not had significant input into the overall formulation of development plans, but rather, was assigned tasks in technical areas after Zion's leadership had determined the nature of development objectives and the approach to be pursued.

2. The Progress Construction Company

The Progress Construction Company (PCC) was established in 1970 as a wholly owned subsidiary of ZIA to operate as a general contractor in building and rehabilitating commercial and residential properties. Initial emphasis was on the development of expertise in construction management. PCC expected to achieve this objective through a strategy of securing major contracts as a general contractor responsible for subcontracting with local minority contractors and for managing the project to completion. As of July 1972, PCC expected to become self-supporting within one year and within two years PCC expected to be operating as a viable profit-making enterprise.

When this evaluation began in the summer of 1972, PCC staff was concentrating efforts on the first major project undertaken since its creation. This contract, started in late 1971, was a joint venture for the construction of the Zion Baptist Church. According to the contract, PCC's participation in construction, profits, and/or cost-overruns was ten percent. Prior to this time, PCC focused principally on small rehabilitation jobs and a few short-term contracts on Zion-owned properties.

During the two-year period of this evaluation there have been significant changes in PCC's personnel and staffing level as well as in its organizational status. As discussed earlier, PCC was transferred from ZIA to ZNPCT along with Progress Property Management Services (PPMS) and Progress Development Services Corporation (PDSC) in the spring of 1973.

Since October 1973, when a new General Manager was chosen, there have been noticeable changes in the operation of the company. It appears that considerable progress has been made in establishing management control of personnel and projects. In addition, the volume and type of contracts PCC has undertaken since the beginning of 1974 suggest that a more realistic strategy is now being pursued, although current profit projections still appear overly optimistic. Indeed, it is too early to ascertain whether the improvements are sufficient for PCC to generate profits without subsidization in the near future.

Milestones and Achievements

During the period for which performance is being evaluated, PCC's achievements did not reach the anticipated level. Based on expectations concerning contracts to be executed during the period July 1, 1973 through June 30, 1974, milestones were set as indicated in Table 19. The actual level of revenues and costs during the evaluation year show that actual activity fell far short of projections.

Table 19

PROGRESS CONSTRUCTION COMPANY - MILESTONES AND ACHIEVEMENTS

Selected Milestones	Expected 7/1/73 to 6/30/74	Actual 7/1/73 to 6/30/74
Revenues	$876,505	$207,302
Costs	788,855	310,543
Net income (loss)	87,650	($103,241)

The particular contracts which were expected to generate the projected revenues, costs, and income are difficult to identify because few contracts had been secured with certainty and several were in preliminary stages of discussion at the time milestones were set. More importantly, adequate management capability within PCC was lacking at this time and, consequently, clear direction did not exist. It is known that the Zion Baptist Church was expected to be completed in late 1973, generating profits of roughly $10,000. The remaining profits were anticipated from commercial contracts to be executed during the year.

Data on work completed on four contracts as of June 30, 1974 indicate that PCC's profit on three completed projects is less than anticipated on two of the contracts and slightly in excess of the projection on the third. On a total contract value of $278,701, PCC showed a gross profit to date of $21,643. However, payments on one contract were ahead of schedule so excess revenue was being held by PCC at that time. Therefore, the gross profit figure is somewhat overstated. In addition, cost figures for each project probably did not include the expenditures for wages and salaries and other administrative expenses that would have been incurred in connection with these contracts but were paid for by the funds allocated to PCC from the Foundation grant.

With regard to PCC's performance during the evaluation relative to previous years, little can be said because financial records either do not exist or could not be provided for earlier time periods. PCC's performance has improved in that information on contracts and financial data is now recorded on a more systematic basis. PCC now prepares its own operating budgets although the long-standing arrangement whereby PCC must request funds as needed, regardless of amount, from the Trust (i.e., PCC management has no working capital to utilize at its own discretion) is still in effect. Another reason comparisons with earlier years are difficult is that before mid-1973 virtually all of PCC's activity, with the exception of the Zion Baptist Church, related to Zion-owned properties. Information made available to us indicates that PCC successfully completed the remodeling of Progress Industrial Park for ZIA but did not earn any income for its work.

Although PCC's performance during the evaluation has not conformed with expectations, there have been noticeable improvements. Management capability is clearly stronger, organizational responsibilities have been defined more clearly, and records are being kept more systematically. Financial statements are being prepared as of the beginning of 1974.

PCC has expanded its scope of activity as well. Competitive bidding on projects appearing in the Dodge Reports, which lists all major construction jobs open to bidding by construction contractors, has been initiated during the milestone year. At least two contracts have been obtained through competitive bidding. Also, PCC has been a member of the General Contractor's Association for over one year and thereby has access to the same subcontractors as the major general contracts in the area. Finally, PCC secured the approval of the HUD Washington Office to act as a Contract developer for the Philadelphia Housing Authority which resulted in a PHDA Contract in process at the conclusion of the evaluation period.

3. Progress Property Management Services

Progress Property Management Services (PPMS) is the third component of ZNPCT's physical development group. Prior to the time this evaluation began, Progress Management Systems existed as a division of ZIA which engaged in the management of the real property of ZIA, its subsidiaries, and those of the Trust. In the spring of 1972, PPMS was designated a potential profit center. A new manager began structuring a more formal organization capable of providing management services on a contractual basis for properties outside of the Zion organization with the intention of enhancing the prospects for future profitability. In January 1973, PPMS was transferred from ZIA to the Trust along with the other two entities of ZIA's commercial group.

In the summer of 1972, the basic property management functions of PPMS included rent collection, mortgage payment, provision of janitorial services, and provision of maintenance and security services through outside contractors. These functions were performed for four Zion-owned properties, Zion Gardens, Grange Street Apartments, and two commercial properties (both small office buildings); outside contracts had not yet been secured. At this time, a significant portion of staff time was spent in developing systems and procedures for more efficient handling of management functions on a larger scale in preparation for the outside contracts PPMS expected to develop. As part of this effort, the staff level was increased and a maintenance department within PPMS was being established.

Milestones and Achievements

When milestones were being set for PPMS for the period July 1, 1973 to July 1, 1974, the effort to attract outside contracts had reached the marketing stage. PPMS had prepared a promotional brochure outlining its services--janitorial, security, property management, asset control, and insurance guidance--available separately or as a package. The brochure was to be mailed to some 5,000 commercial and industrial real estate concerns in the Delaware Valley. PPMS hoped to secure accounts of the following types, listed in order of preference: (1) commercial, (2) industrial, (3) multi-family (unsubsidized), and (4) multi-family (subsidized).

As indicated in Table 20, which shows a representative set of milestone targets and achievements, PPMS did not reach the anticipated level of performance, although three outside contracts were obtained in the area of subsidized multi-family residential management. The precise factors which caused the significant loss experienced by PPMS during the evaluation period are difficult to specify with certainty because financial data with respect to collections and expenditures for the relevant contracts were either unavailable or not available at a sufficient level of detail. Part of the problem was that the operating statements for PPMS are prepared by the Trust's accounting section rather than by PPMS.

Based on the information that was obtained, however, it appears that the shortfall in revenues generated by PPMS is largely attributable to the inability to generate the expected level of maintenance and janitorial fees. While $32,000 in revenues from these sources was targeted, only $9,900 in maintenance revenue was actually earned.

The janitorial and security services program did not get started during the evaluation as expected, so no revenues were generated. One of the reasons for this is a lack of clients interested in separate contracts for janitorial services. Another plausible reason PPMS did not generate contracts in this area (which is also a probable cause of the low level of revenues in the maintenance area) is that the three new residential complexes which came under contract during the year, as well as some of the Zion-owned properties under management, were experiencing serious financial difficulties during the year. Attempting to alleviate the problems relating to these properties and to prevent further declines in their financial situations absorbed considerable time of PPMS staff while reducing revenue collections and necessitating large maintenance and repair expenditures.

In general, therefore, it appears that two major factors contributed to the shortfall in PPMS performance relative to expectations: (1) the inability to secure

Table 20

PROGRESS PROPERTY MANAGEMENT SERVICES - SELECTED MILESTONES AND ACHIEVEMENTS

Milestones	Actual		Expected		Actual	
	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
1. Management accounts						
a. Residential units	104		289		298	
b. Commercial properties	3[a]		11		4[a]	
c. Industrial properties	2[b]		3		2[c]	
2. Total revenue earned by PPMS		n.a.[d]		$62,000		$36,300
3. Net income (loss)		n.a.[d]		($ 6,000)		($56,400)

[a]One of these, Progress Plaza, is maintenance work only.
[b]Maintenance work only on Industrial Park and Glenwood Avenue.
[c]Maintenance work only on Industrial Park; full property management on Glenwood Avenue as of 7/1/74.
[d]Data unavailable for 7/1/72 through 12/31/72; Trust records show revenues to PPMS of $7,633 and expenditures of $22,727 for period 1/1/73 to 7/1/73 for a net loss of $15,094.
Note: Additional milestones were established for: rental collections (residential and commercial/industrial), fees on residential collections, commercial collections, janitorial, maintenance, and bookkeeping fees, expenditures, and units delinquent more than 30 days.

preferred types of accounts with outside concerns, i.e., commercial and industrial, which not only would have been more likely to generate actual revenues, but also at a higher rate (10 percent) than subsidized residential accounts (restricted to six percent of rent collections); and (2) the poor financial position of new properties acquired for management as well as those previously under management, which precluded the collection of some fees actually earned, particularly on in-house contracts, and required extensive staff effort and financial expenditures on the part of PPMS staff with questionable results.

It should be noted, also, that PPMS has been assigned activities periodically by Zion's leadership, such as the development of business and commercial plans for the area designated for major redevelopment. In addition, PPMS has participated in the leasing of space in Progress Plaza and is currently involved in the leasing of Progress Center. These examples illustrate what appears to be a lack of clear delineation of responsibilities and priorities within the Zion organization as a whole and an accompanying tendency to assign tasks to various entities which probably interfere with the fulfillment of an entity's basic functions.

4. Progress Venture Capital Corporation

Progress Venture Capital Corporation (PVCC), part of the economic development group of ZNPCT, was licensed by the Small Business Administration as a Minority Enterprise Small Business Investment Company (MESBIC) in February of 1971. As such, it is licensed to conduct operations in several states, including New Jersey, Maryland, Delaware, New York, Nebraska, and Arizona. As of July 1974, however, PVCC did not expect to continue investment activity in other states, with the possible exceptions of New York and New Jersey, largely because of the unsuccessful experience with such investments in the past.

As a MESBIC, PVCC operates to provide direct loans or equity funds to minority entrepreneurs who are endeavoring to start, improve, or expand businesses and who have not been successful in obtaining venture capital from conventional financing sources. Each portfolio concern is monitored by PVCC staff. If management or technical assistance is requested by a client, PVCC's staff arranges and coordinates such assistance through one of the OMBE affiliates in the area, usually ZNPCT's Entrepreneurial Development Training Center (EDTC), or through ZNPCT's National Progress Association for Economic Development (NPAED) for out of state clients.

Milestones and Achievements

During the year for which performance is being evaluated PVCC was not successful in raising all of the additional private capital as anticipated, although the additional $300,000 from the sale of debentures to SBA was obtained as expected. To a large extent, PVCC's inability to raise the targeted level of private capital is attributable to the general decline in private business concern and support for minority entrepreneurs and enterprises coupled with the onset of a general economic decline.

As of July 1, 1974, therefore, PVCC's private capitalization remained at the initial level of $300,000, which was raised from ZNPCT, ZIA, the Ford Foundation, and approximately 21 Philadelphia-based businesses and individuals prior to its establishment. With these funds, PVCC was eligible to raise a maximum of $600,000 from the SBA, through the sale of debentures to SBA, according to law. On January 8, 1974, PVCC executed the sale of the last $300,000 in debentures for which it is eligible at the current level of capitalization. (The SBA had already purchased debentures in the amount of $300,000 from PVCC at the time operations began in 1971.)

In order to raise additional capital from SBA in the future PVCC must raise additional private capital. As of March 31, 1974 approximately $214,000 remained

for loans, investments, and expenses of the total funds ever raised from private sources and SBA, $900,000. From this perspective PVCC's inability to generate additional private contributions during the last year is particularly disappointing. Moreover, if PVCC could have increased its private capitalization to $500,000, each dollar could have leveraged $3 from SBA instead of the $2 for each private dollar allowable at capitalization of $300,000. With current funds nearly exhausted at the conclusion of this study, a concerted effort was being made to raise additional private capital from the original stockholders.

The representative milestones shown in Table 21 depict the experience of PVCC relative to expectations as well as some indicators of its overall status since operations began. During the evaluation period PVCC invested less than one-half of the amount that was anticipated at the time milestones were set. It was expected that $300,000 to $350,000 would be disbursed in loans or equity investments; about $89,000 was expected to apply to portfolio companies and the remainder, $211,000 to $261,000, to eight or nine new companies. This did not materialize to the extent anticipated, particularly with respect to equity positions assumed with new companies. One reason for this was the failure to generate the anticipated level of additional private capital which, in turn, pushed prospects for additional SBA monies farther into the future than planned. In response, PVCC restricted its activities. Another major reason, related to the first but also deriving from PVCC's loss experience, was the internal movement away from the earlier approach of focusing on the small businessman (primarily through loan assistance) toward an emphasis on larger ventures which seem to have a greater propensity to survive (primarily through equity investment). As of July 1, 1974, PVCC had identified a few companies of this sort although investments had not yet been made.

It is not difficult to see why PVCC might find a change in strategy desirable, and in some respects necessary. Of some 43 businesses that have received some form of direct financial assistance from PVCC since operations began, fourteen have become inactive and over half of current outstanding accounts as of June 30, 1974 are delinquent one year or more in their repayments. The majority of companies receiving assistance from PVCC were retail and service businesses.

Five new loans, a total of $26,000, were made to portfolio concerns during the last year. The dollar value of loans made was considerably less than anticipated. The $26,000 figure does not reflect loans to four portfolio companies which required refinancing of their existing debts due to default of payments. In these cases, PVCC rewrote the note to each company to include accrued interest.

Table 21

PROGRESS VENTURE CAPITAL CORPORATION - SELECTED MILESTONES AND ACHIEVEMENTS

Milestones	Actual		Expected		Actual	
	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
1. New funds generated		0		$450,000-500,000		$300,000
2. Dollar volume of loans and investments	$590,000[a]	$129,500		$300,000-350,000	$697,000-700,000	107,500
3. Number of companies receiving loans or investments	37		45-46		43	
4. Number of companies added to loan portfolio		10		4		5
5. Number of companies added to capital investment portfolio		3		4-5		1
6. Delinquency (number and percent of companies)						
a. Current - 30 days	18(46%)		19(40%)		11	
b. More than six months			0		13	
7. Losses on interest and investments (4/1 - 3/31)		$ 58,774		$ 20,000		$ 86,364
8. Number of management contracts secured		0		9-10		2

[a]As of 3/31/73. Note - Additional milestones were established for: dollar value of loans converted to equity, number of companies converted from loan to equity status, cash flow on loan proceeds (principal repayments and interest), number of applications processed, application fees collected, fees collected for legal work, number of firms receiving MA or TA on a regular basis, value of loans guaranteed, and number of portfolio loan companies guaranteed.

In loans made to new companies, PVCC disbursed more than anticipated to five companies instead of the four projected. Three of these companies were different than the ones to which PVCC expected to make loans at the time milestones were set.

In equity investments, PVCC's activity diverged considerably from the anticipated level. One new equity position was taken through the purchase of $7,500 in the stock of a new company. No reinvestments were made in portfolio companies. Conversions of loans to equity during the period were valued at slightly over half of the anticipated dollar value of loan conversions for the period. The shortfall resulted because the two companies involved experienced financial difficulties which made investment unwise at the time.

The overall picture which emerged from an examination of PVCC's historical financial experience to date is not encouraging. The accumulated deficit as of March 31, 1974 stood at a level of $234,525. The annual operating loss and loss on investments for each year since operations began are shown in Table 22.

Table 22

HISTORICAL FINANCIAL EXPERIENCE

	February 1971 to March 31, 1972	April 1, 1972 to March 31, 1973	April 1, 1973 to March 31, 1974
Income from interest and fees	$20,238	$36,947	$ 43,872
Operating expenses	28,849	44,301	66,855
Operating loss	8,611	7,354	22,983
Losses on interest and investments	50,439	58,774	86,364
Total loss	$59,050	$66,128	$109,347

The total losses on interest and investments from the time operations began through March 31, 1974 were $195,577 of which $86,364 was incurred during the evaluation period. This figure is more than four times the anticipated loss at the time milestones were set. The sum of the dollar value of initial investments made in nine companies treated as losses is approximately $120,000, about 17 percent of the total dollars disbursed since operations began, roughly $700,000. Nearly $200,000, or 29 percent of total disbursements, has been disbursed to companies no longer operating as of July 1, 1974.

At the time milestones were set, PVCC staff also expected to undertake a new activity, financial management for firms on a contractual basis, in order to generate revenues during the last year. As of July 1, 1974, two such contracts had been secured to take effect in September. Although the number of contracts secured was considerably less than the nine to ten anticipated, the monthly fee which will be generated is significantly greater than expected. Since no contracts were in effect, fees were not generated.

In terms of overall performance, PVCC fell short of its expectations during the evaluation and experienced further deterioration of its financial position. In part, this is attributable to circumstances outside management control--the decline in private support of activities of this nature, the general economic slump, the lack of financial backing from a large parent corporation. These factors have certainly affected the performance of PVCC directly, in terms of funds available and level of staffing, and indirectly, in terms of the difficulties portfolio concerns are experiencing. There are indications, however, that part of the problem is attributable to the choices made and the manner in which operations have been conducted. In particular, it seems that improvements can be made in the evaluation of applicants and their prospects for survival and success as well as in the monitoring of investments. At present, there appears to be a lack of systematic review of client progress and documentation.

PVCC is attempting to improve operations in some of these areas. With regard to its portfolio concerns, PVCC is trying to induce SBA to require that companies receiving loans allow the MESBIC to have access to all records. This is not mandatory at present. PVCC would, also, like to be able to require that a portfolio company accept management assistance from an outside source if PVCC deems it necessary. At present MESBICs may only recommend such assistance to the company. With respect to its own staffing and funding, PVCC staff is actively pursuing the effort to secure private funds which would enable them to raise $1.5 million additional dollars from the SBA. Also, the increased capitalization would permit PVCC to hire at least one additional staff member.

5. The Entrepreneurial Development Training Center

The Entrepreneurial Development Training Center (EDTC) has been an entity of the Zion Non-Profit Charitable Trust since 1968. The idea of establishing EDTC originated with Reverend Leon Sullivan who felt there was a need to create a center for "the specific purpose of training entrepreneurs and potential entrepreneurs to make good economic use of the capital that they had or might find being made available to them."[1] Thus, the initial phase of this unit's operations, from January 1969 through March 1971, was devoted to classroom training in two areas: ownership and management. The ownership course was designed to prepare an individual to operate his or her own business. It is built around the preparation of a business package which includes:

(1) staffing plans,
(2) basic operations of a business,

1. Final Report of the Entrepreneurial Development Training Center, 1971, p.

(3) a market survey,
(4) special areas of concern, e.g., zoning,
(5) the equipment and layout to be used,
(6) the amount and purpose of the loan sought,
(7) provisions for loan repayment, and
(8) the accounting and financial control systems to be used.

The management course was designed to provide students with the basic tools of management. Topics covered include planning, budgeting, staffing, organizing, directing, controlling, and human relations. EDTC records indicate that 136 persons completed the ownership course and 190 persons completed the management course during this period.

The second phase of EDTC's operations began in February 1971. At this time, a new strategy was implemented which was designed to integrate what EDTC viewed as three essential ingredients for economic development. The first element, business and entrepreneurial education, would be continued and coordinated with the addition of business packaging services to facilitate the procurement of capital, and the provision of management and technical assistance to minority businessmen encountering problems in the operation of their businesses. The implementation of this new strategy was made possible by a one-year contract for $161,000 with the Office of Minority Business Enterprise (OMBE) which designated EDTC as an OMBE Affiliate.

In February of 1972 OMBE renewed its contract with EDTC for an additional two years at a level of $450,000. Pursuant to this contract, EDTC was officially designated a "Local Business Development Organization" (LBDO). Operationally, this action indicated that relatively greater emphasis would be placed on business packaging and related activities than in the past although training activities would remain a significant component of the overall integrated approach.

EDTC's major function in the business development area is to assist clients in the preparation of a comprehensive business proposal which is then submitted by the client to a lending institution in order to obtain loan funds. The procedure begins with an interview between an EDTC Business Specialist and the client, at which time a client data report is completed. If it is ascertained that the client should proceed, subsequent visits to EDTC are arranged where the Business Specialist, the accountant, and the client prepare the business proposal and develop pro forma financial statements to determine the economic viability of the proposed business. A loan repayment schedule which demonstrates the capability of the business to repay the loan out of the expected cash flow is also included. The next step is the actual submission of the proposal to the bank and/or other lending institutions.

A second function of the business development activities of EDTC is the provision of management and technical assistance. In addition to management and technical

assistance services, EDTC conducts some marketing feasibility studies and assists in setting up accounting systems, particularly where required for a business package.

The training program is still based on the format described earlier. In January of 1973, however, the hours required for the evening classes were reduced from 300 to 204, primarily because of the high drop-out rate experienced. The day classes still require 300 hours of classroom time.

According to the director of EDTC, roughly 60 percent of the overall effort of EDTC is geared toward the business packaging and technical assistance and roughly 40 percent to training activities. During the course of this evaluation it appears that this relative emphasis has remained fairly constant.

Milestones and Achievements

Several difficulties arose in the process of milestone target setting and performance documentation for EDTC. First, the contract period and, consequently, EDTC's major reporting period for the relevant time period was from February 1972 through March 1974. Moreover, although EDTC has prepared and submitted quarterly reports to OMBE on a normal calendar year basis, it was not possible to aggregate the data for the milestone period from these reports systematically because some reports were unavailable and also because several items were reported on a cumulative basis and disaggregation was not possible.

Partly for the same reasons and partly because of some reluctance on the part of EDTC's Director and Associate Director to specify targets, few milestone targets for this entity were derived. As indicated in Table 23, achievements during the second contract year, March 1973 to March 1974, in terms of business packages approved and particularly their dollar value, exceeded the targeted level. The projected number of packages to be approved was 25, at an estimated value of $700,000. During the period March 1973 through March 1974, 28 loan packages were actually approved in the amount of $1,123,000. Part of the increase is attributable to a larger average loan size during the second contract year relative to the previous year. Table 24 shows the volume of approved loans by source for each year of the contract period. As indicated in the table, the average size of loans from banks alone increased from $9,357 in the first year to $27,433 during the second year. Similarly, SBA direct loans averaged $25,313 in the first year and $46,643 in the second. These increases clearly offset the lack of loan funds from MESBIC sources during the second year relative to the prior year.

Not only the average size, but also the number of loans approved by banks increased significantly during the second year. EDTC suggests that this "probably reflects both the fact that the banks are becoming less dogmatic in their approach

Table 23

ENTREPRENEURIAL DEVELOPMENT TRAINING CENTER -
SELECTED MILESTONES AND ACHIEVEMENTS

Milestones	Actual		Expected		Actual	
	As of 3/15/73	During the year February 1972 to March 1973	As of 7/1/74	During the year 7/1/73 to 7/1/74	As of 3/31/74	During the year, March 1973 to March 1974
1. Number of business packages processed	343			300		264
a. Approved	29			25		28
(dollar value)	($1,086,900)			($700,000)		($1,123,000)
2. Number of business failures	3			0		2
(dollar value)	($ 28,000)					($ 57,500)
3. Estimated value of SBA 8(a) contracts received by clients through LBDO		0		$100,000		$ 1,000
4. Number of graduates from training classes		154		160		165
5. Number of firms assisted in accounting and control systems		10		30-35		12

Note: Additional milestones were established for: estimated value of private procurement contracts received by clients through LBDO assistance, and number of businesses receiving technical assistance from EDTC.

Table 24

APPROVED LOANS BY SOURCE

	February 1972 to March 15, 1973		March 16, 1973 to March 15, 1974	
	Number	Size ($)	Number	Size ($)
Bank	7	$ 65,500	15	$ 411,500
Bank/SBA Guarantee	6	554,000	5	360,000
SBA, Direct	8	202,500	7	326,500
SBA/MESBIC	3	88,900	0	0
Bank/MESBIC	2	90,000	0	0
Bank/SBA/MESBIC	2	81,000	1	25,000
Other	1	5,000	0	0
Total	29	$1,086,900	28	$1,123,000

to granting loans to minority enterprises, and the likelihood that business opportunities within minority communities are getting better."[1] Another plausible factor is that the quality of loan packages submitted has improved in terms of the economic viability of proposed ventures.

MESBICs, however, have virtually dried up as a source of loan approvals. In the first contract year, MESBICs accounted for roughly $285,000 of loan approvals, or about 26 percent of the total while during the second year MESBIC provided only $25,000 in loan funds, or about two percent of the total. Although all of the reasons for this significant decrease are not known, it appears to lend support to the hypothesis that the MESBIC as an institution is experiencing a contraction of sorts, probably attributable to a general decline in private sector commitment to minority enterprise development.

The great majority of loan approvals for businesses packaged by EDTC has been in ventures of a retail or service nature. During the first contract year, 76 percent of loans granted were in these two types of businesses and in the second year the proportion increased to 96 percent of loans made. EDTC reports suggest that the reason for this concentration is that retail and service businesses are among the most viable opportunities in a community within a much larger community. The MESBIC associated with the Trust, Progress Venture Capital Corporation, also reflects a majority of retail and services businesses.

On a cumulative basis, a total of five of the 57 loans approved from February 1972 through March 1974 have failed, only nine percent of the businesses receiving loans with EDTC assistance. All of these were either retail or service businesses. The total dollar value of the loans made to these businesses was $57,500, four percent of the total amount of loan approvals to all companies ($2,209,900). This aspect of EDTC's performance is encouraging. Information on delinquencies in loan repayments or on net profits of clients was not available, however,

EDTC fell short of its objectives in terms of firms assisted in accounting and control systems. Although specific information has not been provided, one plausible reason for the shortfall is that a large proportion of the loans approved during the milestone period--19 of a total of 28--involved business expansions rather than new businesses and the former did not require the implementation of new accounting and control systems. Another plausible explanatory factor is that EDTC found it necessary to utilize contractual services of outside experts to a greater extent than anticipated at the time milestones were set. This is the procedure normally followed by EDTC for businesses requiring substantial assistance.

1. EDTC Report to OMBE for the contract period March 1972 to March 1974, p. 9.

With regard to training activities, EDTC expected to graduate 160 students from the day and evening ownership and management courses during the milestone period. From March 1973 to March 1974 EDTC records indicate that 165 persons completed training, 81 in ownership and 84 in management courses. Since fewer individuals enrolled in courses during the second contract year relative to the first, a greater proportion of enrollees completed requirements successfully during the last year (65 percent compared to 54 percent in the previous year). Part of the increased completion rate is attributable to the reduction in class hours for the evening course from 300 hours to 204 hours. EDTC took this action because of the high drop-out rate experienced with the lengthy course in the evening sessions.

6. National Progress Association for Economic Development

The National Progress Association for Economic Development (NPAED) was established as a nonprofit subsidiary of the Trust in 1969. Initial efforts focused on attempts to identify and coordinate financial and technical resources, both public and private, in order to promote viable opportunities for minority business ventures in approximately 20 cities.

Since January 1972 NPAED has focused its activities on the administration and fiscal management of Local Business Development Organizations (LBDOs) in several cities. At that time NPAED entered into a two-year contract with the Office of Minority Business Enterprise (OMBE) to operate as the national headquarters for local economic development program in five cities. The contract provided funds to NPAED in the amount of $1,007,000: $220,000 for the operation of the national center and $787,000 earmarked in specified amounts to each of the five cities.

The staff of each city's LBDO recruits minority entrepreneurs, provides business packaging services, assists in loan and contract procurement, and provides management and technical assistance to prospective and existing minority entrepreneurs. Although the Trust's Entrepreneurial Development Training Center (EDTC) has been designated as an LBDO by OMBE, it operates under a direct contract with OMBE rather than as an NPAED-affiliated LBDO.

NPAED's specific administrative functions include coordinating program activities and fiscal procedures of the LBDOs, providing supervisory support to LBDO Directors, monitoring of LBDO program performance, evaluating LBDO programs and staff, assisting the LBDOs in resource development, and verification and analysis of performance data provided to OMBE by each LBDO. Fiscal responsibilities of NPAED require that NPAED handle the payroll of the LBDOs, prepare budgets for each LBDO and for the national center, generate financial records in conjunction with the LBDOs, and conduct quarterly audits for each LBDO as well as an annual audit.

Milestones and Achievements

A representative sample of milestones and achievements for NPAED are shown in Table 25. NPAED's Local Business Development Organizations fell short of the projected levels of output.

Although NPAED expected to add four new LBDOs to the four existing at the time milestones were set, only one was picked up during the period July 1, 1973 to July 1, 1974. Since three of the four anticipated additions were in early planning stages during the summer of 1973, milestones were chosen on the basis of output levels expected for the five LBDOs which would be operative throughout the milestone year. However, the fifth LBDO was added as of March 1, 1974, about nine months later than expected. The data provided on actual achievements consequently reflect output levels for only four cities.

There appear to be three general reasons for the shortfall in achievements relative to milestones during the evaluation period. First, the projections made were overly optimistic in light of previous experience. Second, the general economic decline affected both the number of prospective entrepreneurs desiring to assume the risk of starting new ventures or buying out existing ones and the willingness of banks to approve loans for such ventures. Finally, the LBDOs placed relatively greater emphasis on the quality rather than quantity of ventures receiving loans during the evaluation. In order to achieve this objective, each LBDO tightened the screening process and became more selective in terms of the client's equity and experience requirements.

In addition to these general factors specific problems arose which also contributed to a lower level of output than anticipated. During the five months following the expiration of NPAED's two-year contract with OMBE on December 31, 1973, NPAED and its affiliates operated under highly uncertain circumstances. OMBE granted an extension of the old contract for the first two months which permitted the use of unexpended funds and a further extension for another three months which allowed NPAED to borrow funds on the new contract pending but not approved. Although the new contract was finally approved by OMBE as of June 1, 1974, the five-month period of uncertainty had unfortunate repercussions in the LBDOs. NPAED's Deputy Director indicated that there were morale problems and high turnover of personnel in the affiliated organizations during this period. Under these circumstances output levels declined.

Table 25

NATIONAL PROGRESS ASSOCIATION FOR ECONOMIC DEVELOPMENT - SELECTED MILESTONES AND ACHIEVEMENTS

Milestones	Actual		Expected		Actual	
	As of 7/1/73	During the year 7/1/72 to 7/1/73	As of 7/1/74	During the year 7/1/73 to 7/1/74	As of 7/1/74	During the year 7/1/73 to 7/1/74
1. Number of LBDOs affiliated with NPAED	4		8		5	
2. Number of loans packaged		155		179		149
3. Number of loans approved		57		124		81
a. Total dollar value of approved loans		$1,361,100		$6,696,000		$2,615,146
4. Number of contracts procured[a]		34		111		45
a. Dollar value of contracts procured		$ 451,000		$3,575,000		$1,987,750
5. Number of new businesses started		49		63		32
6. Number of businesses expanded		90		37		43

[a]This includes SBA 8(a) contracts, private and public contracts procured through competitive bidding, and direct federal awards.

Notes: Milestone targets 2 through 6 represent projected volumes for the five cities expected to be operating during the entire relevant period: Trenton, Charlotte, Nashville, Oklahoma City, and Charleston. Bluefield, Clarksburg, and Knoxville were in planning stages at the time milestones were set. Additional milestones were established for: funds available for expenditure by national headquarters, actual expenditures, total level of funding to LBDOs, total number of clients, number of businesses transferred to new owners, dollar value of those businesses, average number of clients provided with management or technical assistance per quarter, and total man-hours spent in providing the following types of management assistance/technical assistance: accounting at $20 per man-hour, advertising at $18 per man-hour, bonding at $16 per man-hour, distribution at $17 per man-hour, finance at $16 per man-hour, legal at $40 per man-hour, management at $19 per man-hour, marketing at $17 per man-hour, procurement at $16 per man-hour, site selection at $14 per man-hour, taxes at $20 per man-hour, ownership training at $16 per man-hour, management training at $16 per man-hour, and other. (Categories of service and cost of each service/man-hour are based on SBA figures.)

B. Zion Investment Associates

Zion Investment Associates was formed in 1965 to operate businesses which could provide employment for people trained by the Philadelphia OIC. The businesses were intended, also, to generate profits for the stockholders of ZIA who were primarily contributors to the 10-36 plan. Substantial losses have been incurred by ZIA. These losses have resulted in an increased emphasis within Zion on improving efficiency, reducing costs (particularly personnel costs), and insuring professional management of ZIA subsidiaries.

At the beginning of our evaluation, ZIA consisted of a corporate headquarters and nine subsidiaries. These subsidiaries were Progress Property Management Services, Progress Venture Capital Corporation, Progress Development Services Corporation, Progress Construction Company, Progress Aerospace Enterprises, Progress Products Company, Progress Plaza, Our Markets, and Progress Enterprises, Inc.

The first four of these subsidiaries (PPMS, PVCC, PDSC, and PCC) were included in ZIA so that ZIA, rather than the Trust, would house all the profit-making or potentially profitable entities. Due to the failure of these subsidiaries to generate profits and to the desire of ZIA management to show a more favorable financial picture at the end of 1973, these subsidiaries were transferred back to the Trust and have been discussed above.

The current structure of ZIA consists, therefore, of the corporate headquarters and the remaining five subsidiaries. During the evaluation, we did not establish detailed milestones for each of these entities. Since they are all meant to be profitable, revenue and cost targets are appropriate milestones. Early in the evaluation period, we obtained revenue and cost projections for these entities for the years 1973 to 1978. Table 26 shows comparisons between the projections for 1973 and half of the 1974 projections with actual figures for the evaluation period. These comparisons show considerable shortfalls in projected net revenues for all of the major subsidiaries. PAE has shown the most promising improvement.

We will not discuss the individual ZIA entities in detail here. Zion's shopping center, Progress Plaza, is discussed in the commercial center case study, Chapter 5. Our Markets, which are small retail stores, are being phased out, since they did not prove to be economically viable. Progress Products Company, which took over the assets of the now defunct Progress Garment Company is engaged primarily in the production of coach harnesses. Their major market is with General Motors. The company experienced a loss of $84,100 during the milestone period. Progress Enterprises is the real estate holding company of ZIA and had a net loss of $9,300 over the same period. Progress Aerospace Enterprises, which primarily makes electrical harnesses

Table 26

COMPARISON OF PROJECTIONS WITH ACTUAL ACCOMPLISHMENTS FOR PROGRESS PLAZA (PP), PROGRESS PRODUCTS COMPANY (PPC), PROGRESS AEROSPACE ENTERPRISES, INC. (PAE), AND PROGRESS ENTERPRISES, INC. (PE)
(in thousands of dollars)*

	Projection				Actual				Projection				Actual			
	1/1/73 to 12/31/73				1/1/73 to 12/31/73				1/1/74 to 12/31/74 ÷ 2				1/1/74 to 6/30/74			
	PP	PPC	PAE	PE	PP	PPC	PAE	PE	PP	PPC	PAE	PE	PP	PPC	PAE	PP
Revenues	221.4	861.7	4,460.0	154.4	213.4	789.2	1,475.4	156.1	110.7	1,100.0	2,850.0	80.1	94.6	309.6	1,205.0	89.0
Costs	(227.4)	(813.8)	(4,328.4)	154.2	(213.8)	(800.4)	(1,928.8)	156.1	(115.7)	(1,001.3)	(2,798.8)	65.6	(100.9)	(374.3)	(1,147.4)	(103.8)
Net Income	(6.0)	49.0	131.6	.2	(.4)	(11.2)	(453.4)	0.0	(5.0)	98.7	51.2	14.5	(6.3)	(64.7)	57.6	(14.8)

* Losses and expenses shown in parentheses. Actual figures derived from unaudited financial statements. Projections derived from five-year planning projections.

Table 27

ZIA INCOME STATEMENTS, JULY 1, 1973 TO JUNE 30, 1974
(in thousands of dollars)*

	Combined	Corporation Headquarters	Progress Plaza	Our Markets	Progress Enterprises	Progress Aerospace Enterprises	Progress Products Company
Revenues	4,002.7	565.3	210.2	16.6	167.9	2,343.7	699.0
Costs	(4,612.2)	(539.1)	(230.1)	(167.7)	(202.2)	(2,715.0)	(783.1)
Net Income	(609.5)	26.2	(19.9)	(151.1)	(9.3)	(371.3)	(84.1)

* Losses and expenses shown in parentheses. All figures derived from unaudited financial statements.

and whose major market is General Electric, had a loss of $371,300 during the evaluation. Of the subsidiaries, however, PAE was the only one which was profitable over the period from January 1, 1974 to July 1, 1974 (see Table 26).

ZIA has responded to the continuation of financial problems by shifts in key managerial assignments. Since the projections shown in the table were made, only one of the managers who were responsible for the projections remains. The new manager of ZIA has indicated to us his view that the initial projections were unrealistic, given the financial situation of the subsidiaries at the time they were made.

It was hoped that ZIA would reach at least a breakeven point by the end of 1973. This has not happened, in spite of the improved management. Table 27 shows revenues, costs, and net income figures for ZIA and its subsidiaries during the milestone period from July 1, 1973 through June 30, 1974. As can be seen from the table, ZIA as a whole suffered a loss of over $600,000 during the milestone period. Losses were incurred by all major subsidiaries during the period. Given these losses, prospects must be considered questionable, in spite of the noticeable managerial improvements.

CHAPTER 5

CASE STUDIES

WOODLAWN GARDENS AND JACKSON PARK TERRACE
THREE COMMERCIAL CENTERS

Introduction

As seen from the discussion of CDC entities, an increasingly large amount of staff and monetary resources are being devoted to physical development activities. Each of the CDCs is attempting to effect major redevelopments in their respective communities through coordinated large-scale efforts in the areas of housing construction and rehabilitation, commercial development, property management, and other physical development activities.

The present chapter will summarize the experiences of TWO in developing two major housing complexes, Jackson Park Terrace and Woodlawn Gardens, and the experience of each of the CDCs in developing shopping centers: Woodlawn Gardens in TWO, Progress Plaza in Zion, and the Commercial Center in Restoration. The purpose of these special studies is to examine the performance of the CDCs in these important areas and to take into account circumstances that bear on the success or failure of these projects.

An additional purpose of these studies is to illustrate some of the opportunities and constraints facing CDCs in pursuing their various program options. Prominent among the constraints which bind the CDCs, given a continuing objective of relating to a broad range of community interests, is the attempt to develop projects which combine both social and business objectives. In the case of Jackson Park Terrace, a major social objective was to provide housing for residents of the Woodlawn community, most of whom are low-income persons. It will be shown in this study that securing a large percentage of low-income tenants for Jackson Park Terrace could possibly threaten the economic viability of the project. On the other hand, applying strictly commercial criteria for tenant selection would probably preclude any large number of low-income tenants and would require the recruitment of middle-income tenants, many of whom would come from outside of the immediate community.

A similar phenomenon was involved in the development of all three CDC shopping centers. A social objective of the CDCs in each case was to promote local minority entrepreneurs. Indeed, in the case of TWO, it will be seen that the only apparent

criterion for tenant selection was that the prospective tenant be a minority businessman. While Zion and Restoration also paid attention to getting local minority tenants in the shopping centers, there was more effort to be selective than there was in Woodlawn. The shopping center case study discusses the difficulties social objectives may pose for the commercial success of these centers and, possibly, for the viability of the centers.

To some extent offsetting the constraints imposed by the dual objective of the CDCs, our studies illustrate some of the special advantages accruing to CDCs undertaking these large-scale operations. One such advantage is the ability of the CDC to acquire highly desirable land at lower than commercial rates because of the nonprofit status of CDCs. CDCs, once having established their presence in the community have at least the initial support of local residents in undertaking large-scale projects. The lack of such community support sometimes has been a serious obstacle to private developers wishing to build shopping centers.

CDCs may be able, also, to bring together a diverse set of resources which can enhance the potential effectiveness of their large-scale projects. In Zion, EDTC and PVCC are entities that have the potential for providing training, technical, and financial assistance to local merchants to enhance their viability as shopping center tenants. There is little evidence, however, that these capabilities have been used effectively in Progress Plaza. In Restoration, there are more effectively coordinated efforts of the Economic Development Division (EDD) to provide financial and other assistance to possible local merchants within the Commercial Center. If the Commercial Center is ultimately successful, EDD will have been a significant contributing factor to that success. By contrast, an analogous set of supporting activities for local merchants was absent in Woodlawn. That absence was a factor contributing to the failure of the shopping center.

The case studies also discuss some of the actual and potential effects of CDC involvement with larger established firms in the form of technical assistance and joint ventures. While we do not have sufficient evidence to comment authoritatively on the usefulness or effectiveness of these arrangements, our studies illustrate some important consequences, good and bad, of the technical assistance and joint ventures. TWO's venture with the Kate Maremont Foundation was of questionable benefit to TWO. The motivation of a CDC's venture partners may be at variance with those of the CDC, and this leads to the view that the rewards of the co-ventures should be tied in with the success of the project.

Regarding technical assistance, our studies show that this also is not an unmixed blessing for CDCs. Managers most closely related to the technical advisors

rated them all the way from helpful to harmful. Where it is required, because of turnover or experience levels of advisors, to spend a great deal of time learning the operation or context of the projects, outside help has not been particularly beneficial in the view of CDC managers.

We began our case studies by reviewing the history of TWO's first housing development, Woodlawn Gardens, followed by the study of TWO's Jackson Park Terrace, which was still under construction at the close of this evaluation study. The last set of studies in this chapter focuses on the shopping centers developed by each of the CDCs.

WOODLAWN GARDENS

Woodlawn Gardens, the only completed physical development project in which TWO had been involved at the time this evaluation began, was jointly planned and undertaken by TWO and the Kate Maremont Foundation in the 1960's.[1] Planning for the project, which now comprises 504 units of low- to moderate-income housing and approximately 35,000 square feet of commercial space, began in 1963, when TWO decided to expand its role to that of developer for the Woodlawn community. Lacking in both experience and financial resources, TWO joined with Kate Maremont Foundation (KMF) which at that time enjoyed a nation-wide reputation as a good developer.

The original plans, from TWO's point of view, were confined to the development of a housing complex under HUD's 221(d)(3) Program. However, in reaching its decision to declare the site chosen a "slum and blighted" area, the City of Chicago's Department of Urban Renewal pressed for the inclusion of some commercial space in the proposed development. TWO's partner, KMF, found the idea attractive and since TWO also was interested in becoming more involved in commercial activity, the plans for the project incorporated a commercial area, later designated as a shopping plaza with space for 11 to 12 stores. All of the financial projections relative to Woodlawn Gardens were developed by KMF, or the Chicago Rehabilitation Management Foundation (CRMF), the housing development arm of KMF. CRMF was also to handle the management of the project upon its completion.

Construction began in 1968, when HUD approved a mortgage of $9.3 million, and the first units were occupied in 1970. The financial experience of Woodlawn Gardens for the next two and a half years was disastrous. During 1970, less than 50 percent of the units were rented and at the year end, the income to Woodlawn Gardens was only about one-half of the projected income, yet administrative, operating, and

1. The entity formed for this purpose was the TWO/KMF Development Association.

maintenance expenses were about 12 percent higher than projected for 97 percent occupancy. Real estate taxes and insurance were almost double the projected level.

By the end of 1971, income slightly exceeded the original estimates; all units had finally been rented, but it was almost two years since operation began. During 1971, the first conclusive evidence of the underestimation of the total administrative, maintenance, and operating expenses became clear: actual costs were more than double the anticipated level. As of December 31, 1971, Woodlawn Gardens was delinquent in their FNMA payments and overruns in operating expenses, real estate taxes, and insurance payments had been experienced. During the year, one major step was taken in an effort to improve operations and mitigate against further difficulties. The management contract with the Chicago Rehabilitation Management Foundation, which had sole responsibility for managing and operating the Woodlawn Gardens development since inception, was terminated. TWO felt that CRMF lacked adequate fiscal controls and records. Soon thereafter, TWO entered into a management contract with anotner realty company.

By the summer of 1972 three additional steps had been taken in an attempt to alleviate the severe financial problems. The Woodlawn Gardens mortgage with FNMA had gone into default and was assumed by FHA--a sign that solutions had to be found soon or foreclosure would probably result. The first actions were initiated by the TWO/KMF Board of Directors. They authorized an immediate rent increase of 10 to 12 percent and directed that counsel undertake steps to obtain a reduction in real estate taxes, that operating expenses be reduced, and that a tenant education program be created. Secondly, the services of Arnold and Porter were made available to TWO through the Foundation's technical assistance program; their role was to assist in the formulation of a remedial action plan for Woodlawn Gardens. A third action taken also involved technical assistance; in this case, the National Council for Equal Business Opportunity, Inc. (NCEBO) was asked to review the operations, problems, and prospects of the shopping plaza and its tenants. Furthermore, a WCDC Director of Urban Development was hired whose main task was to devise a workable solution to the growing problems of Woodlawn Gardens.

As a result of the Arnold and Porter report, TWO/KMF reduced the maintenance and security staffs of Woodlawn Gardens, increased rents by 5 percent, and, through litigation initiated by WCDC's legal counsel, secured a rebate of more than one-half of the 1971 real estate taxes and a reduction in the 1972 tax bill. Despite these factors operating expenses for calendar year 1972 were more than twice the level projected. Real estate tax and insurance payments were still 157 percent of the original estimate. Income for the year was about 20 percent in excess of the budget.

By the time milestones were being set, more than a year had passed since the plan for reinstating Woodlawn Gardens as a viable project in March of 1972 had been developed. In the interim, it had become apparent that the problems of the development had not been resolved through implementation of the plan. Moreover, the findings and suggestions for alleviating the problems of the shopping plaza contained in NCEBO's report, also completed in March 1972, had also proved inadequate or infeasible. Unfortunately, another significant problem surfaced during this period, the discovery of gas leaks in the housing portion of the development, thereby compounding the project's financial crises with physical deficiencies. Consequently, a number of new steps were initiated during the first year of this study. When milestones were being set, it appeared as if a permanent solution was, indeed, in the process of being formulated. With technical assistance from a major developer, provided by the Ford Foundation, WCDC had resolved the gas leakage problem and developed a strategy for returning the commercial portion of the development to viability. This strategy was to secure a major tenant capable of taking over a substantial part, if not all, of the enclosed mall. The most probable candidate was the Health Maintenance Organization being established by a TWO/WCDC subsidiary, GWAC.

Perhaps the most significant action taken during the first year of this evaluation, as an effort to prevent the impending foreclosure of Woodlawn Gardens by HUD, was the retention of outside advisors to undertake an independent evaluation of the management and financial status of Woodlawn Gardens and to develop a plan for the future viability of the development.

The technical advisor's report on Woodlawn Gardens was completed in June 1973, shortly before our milestone setting process with TWO/WCDC staff began. The document contains the results of an extensive analysis and evaluation of the financial, administrative, operating, maintenance, security, and tenant involvement aspects of the development. The most important part of the analysis, for our purposes, is that which pertains to recommendations for the immediate and long-range operations of Woodlawn Gardens. These recommendations formed the basic structure for this entity during the year for which performance is being evaluated. The remainder of this section concerns the actual accomplishments of Woodlawn Gardens during the last year relative to milestone targets, which were predicated on the recommended course of action, and some other objectives not reflected in the milestones.

A. Milestones and Achievements for Woodlawn Gardens

Before examining the performance of Woodlawn Gardens in terms of milestone achievements, it is important to understand the financial and management plans which were designed to return the project to viable status in the long run. It was clear

that the existing debt service problem: (1) resulted primarily from an extraordinary underestimation of operating costs at the time of inception, and (2) could not be resolved by increasing rents (this was economically unrealistic and would be inimical to the goal of providing affordable housing for low-income residents who were already paying in excess of 30 percent of their incomes for rent) or by reducing operating costs (which were already comparable to several other Chicago 221(d)(3) housing projects).

The alternative recommended for the short term had two elements. First, it was suggested that HUD approve an interim financial plan outlined to HUD in June 1973. This plan provided for:

(1) deferment of mortgage principal payments,

(2) deferment of contributions to reserve for replacement, and

(3) development of funds to carry out extraordinary maintenance and needed repairs.

Second, it was recommended that WCDC take certain steps. In terms of management, the interim plan called for WCDC's newly created Real Estate Management Division to begin partial management of the housing complex as of October 1, 1973 with full management in effect by January 1, 1974. The essence of the interim management plan, however, was to develop a resident management capability within the TWO/KMF Development Association which would function with the active participation of the tenants.

In terms of financial objectives, the interim plan proposed that WCDC secure a major tenant for the commercial area of the complex and thereby generate additional annual income. Furthermore, efforts were to be made to further reduce the real estate taxes and reduce annual insurance payments. If these potential savings could be achieved, total annual expenses would be reduced almost 14 percent. On balance, if all of these adjustments could be arranged, the total cash available for annual debt service would increase about 63 percent.

It was expected that the interim plan would be followed, assuming HUD approval of the first component, at least until January 1, 1974. At that time, it would be known how successful WCDC had been with respect to the second component of the interim plan and, consequently, what sort of permanent reinstatement plan would be feasible, based on the annual cash available for debt service.

Milestone performance with respect to the residential portion of Woodlawn Gardens slightly exceeded expectations.[1] Rental collections during the milestone year were 5 percent higher than the previous year and 2 percent higher than the projected level. Since the rental rates did not increase, the increase is attributable, in part, to the relatively high rate of occupancy and low rate of turnover during the

1. Selected milestones for Woodlawn Gardens are shown in Table 28.

Table 28

WOODLAWN GARDENS - SELECTED MILESTONES AND ACHIEVEMENTS

Milestones	Actual		Expected		Actual	
	As of 7/1/73	During the year, 7/1/72 to 7/1/73	As of 7/1/74	During the year, 7/1/73 to 7/1/74	As of 7/1/74	During the year, 7/1/73 to 7/1/74
Residential						
1. Number of units and average rental per unit per month	504	$151.94	504	$151.94	504	$151.94
2. Apartment occupancy	95%		95%		96½%	
3. Tenant turnover in apartments		10 tenants per month		7 tenants per month		5 tenants per month
Commercial						
1. Occupancy	67% eight tenants		95-100%		33% four tenants	
Overall						
1. Annual income		$1,004,509		$1,008,768		$1,020,158
2. Net cash surplus available for debt service and extraordinary repairs accrual		$241,000		$286,500-299,500		$246,500

Note: Additional milestones were established for: gross apartment rent collections, other residential income (laundry, interest, miscellaneous), gross commercial rental income, average commercial rent per square foot collected, number of present tenants in arrears, and mortgage payable.

year and, in part, to more efficient billing and collection procedures in effect during most of the year. Both of these factors, in turn, are largely attributable to the fact that WCDC and the newly hired on-site management staff did assume partial management of Woodlawn Gardens in October 1973 and full management as of January 1974, as was expected. One of the important elements of the new management plan was the implementation of a computerized billing system for Woodlawn Gardens. This objective was accomplished during the last three months of 1973, primarily through the joint efforts of WCDC and the new on-site management staff, with the assistance of the technical advisors. In general, the assumption of management responsibilities has been successfully executed, although WCDC performs some of the functions originally intended for the on-site management staff.

Actual accomplishments with respect to the commercial milestones for Woodlawn Gardens fell short of the projected levels of achievement. The major objective WCDC hoped to accomplish by July 1, 1974 was the leasing of a large portion of the mall area to a major tenant, probably the Greater Woodlawn Assistance Corporation's health center. During the last six months of 1973, however, it became clear that the cost of renovation required to accommodate GWAC was prohibitive and an alternative major tenant would have to be secured. Although the idea of leasing the space as a medical facility to a private group of physicians was immediately decided upon, the time expended in searching out prospective tenants and negotiating with them caused delays. As of July 1, 1974, therefore, the mall area had not been leased to a major tenant, but final discussions on a lease agreement between WCDC and a medical group were in process.

During the milestone year, four of the eight tenants occupying the plaza as of July 1, 1973, either vacated voluntarily or were evicted. These vacancies were not filled by WCDC management in accordance with the plans to lease a large portion of the space to a major tenant. As a consequence, expected rental collections from commercial tenants during the last year fell short of the targeted level.

The interpretation of overall performance for this entity during the milestone year can be viewed usefully from two perspectives. One important set of concerns relates to the relative status of Woodlawn Gardens as of July 1, 1974 compared to the beginning of this evaluation period. From this perspective, there are a number of indications that major strides have been made. The gas leak problem was resolved and an extraordinary repairs and deferred maintenance program was implemented in January 1974. Full management responsibility was transferred from the external realty company to WCDC management staff and the on-site personnel at Woodlawn Gardens. While the on-site staff has not been able to assume all of the functions expected, WCDC staff seems to be compensating for the slack and overall performance appears to represent a considerable improvement over previous years.

Financial reporting, billing, and collecting efficiency, as well as handling of day-to-day maintenance and security have improved substantially. In addition, firm negotiations on the lease agreement with the major tenant for the mall were in process. It appears that the additional annual rental income will be generated, although not until 1975. Furthermore, a reduction in insurance payments had been obtained, generating slightly more savings than expected, although it was not possible to reduce real estate taxes further. Finally, the interim financial plan, described earlier, was informally approved by HUD in late 1973. A formal Provisional Work-Out Arrangement between HUD and the TWO/KMF Development Association, incorporating

the same basic terms but with increased payments to HUD, was entered into in February 1974 to cover the period January 1, 1974 through December 31, 1974. This was a significant step forward in the direction of a permanent reinstatement plan, expected to be implemented in January 1975 when the previous arrangement expires.

The other perspective from which overall performance can be interpreted usefully, focuses on the financial experience of the entity during the relevant time period. Total income to Woodlawn Gardens during the period July 1, 1973 to June 30, 1974 exceeded the projected level by one percent. However, a shortfall in net cash surplus available for debt service and extraordinary repairs reflects the fact that expenditures incurred during the year also exceeded expectations.

One factor which caused a significant increase in costs relative to previous years was the hiring of new on-site management staff and increased janitorial and security personnel. These three cost items alone comprise more than one-third of total administrative, operating, and maintenance expenses. Comparisons among cost figures indicate that these particular cost items account for the bulk of the increase in administrative, operating, and maintenance costs between calendar year 1972 and the twelve month period ended June 30, 1974.

Another major factor which caused expenditures from July 1973 to July 1974 to be significantly higher than prior years was the implementation of the interim financial plan, described earlier.[1] Prior to July 1973, the TWO/KMF Development Association was unable to meet its monthly financial obligations to HUD for mortgage principal or interest and for the required repair and replacement reserve. As part of the interim financial plan, monthly payments on accumulated mortgage interest began in July 1973. The sum of these payments during the evaluation year amounted to about 25 percent of total expenses, exclusive of extraordinary maintenance and repairs. Also, in establishing the special fund for the latter early in the evaluation year, an initial contribution out of operating income was made which constituted an additional outlay not made in prior years.

Although Woodlawn Gardens did experience a loss during the evaluation year, real progress has been made in organizing and implementing a financial plan to improve the prospects for its future viability. While it does not seem realistic to expect the generation of cash available for debt service of the magnitude proposed by the interim financial plan, a permanent reinstatement plan involving lower debt service requirements seems likely.

1. See p. 100.

JACKSON PARK TERRACE

A comparison of the experiences of TWO with Woodlawn Gardens and Jackson Park Terrace (JPT) offers a study in contrasts both between TWO's strategic approach to undertaking a housing development then and now and between different sets of overall objectives in undertaking the two projects. Because JPT was not completed during our evaluation, we cannot compare the operation and maintenance phase of these two housing developments, but we do observe differences in the initial approaches to these projects which indicate learning on the part of TWO and an increased likelihood for success in JPT. To be sure, there have been serious and as yet unresolved problems in the development of JPT, as there were with Woodlawn Gardens. But the problems and challenges posed by JPT do not parallel those of Woodlawn Gardens. The following study will illustrate some significant differences in approach, signaling a change in strategy from that with Woodlawn Gardens.

One of the general changes we have noted in all of the CDCs is the greater emphasis on long-run business and commercial development relative to direct social impact programs that were initiated in earlier years. In Woodlawn this principle is illustrated graphically by the change from the Woodlawn Gardens project, which houses low-income residents from the local community, to JPT which may house a large number of middle-income residents from outside the community.

The study of JPT highlights some of the factors motivating this shift of emphasis. Many of these factors are similar to those which influence other CDCs to increase their emphasis on commercial viability rather than direct and immediate social programs for community residents.

A. Historical Background and Milestone Objectives

In 1968 TWO submitted a proposal to the University of Chicago for a housing and redevelopment plan in the amount of $1 million. This was also the year that construction on Woodlawn Gardens had begun. In response to TWO's proposal, the trustees of the University offered to lease an 8 acre tract of land to TWO for a period of 65 years on which housing for low- to moderate-income families would be constructed. The site location was considered highly desirable since it is situated in proximity to the University of Chicago and Hyde Park, to the Museum of Science and Industry and to Jackson Park and Lake Michigan, offering many physical and recreational amenities while only about 15 minutes away from the Loop by public transportation. Given this opportunity, TWO began acting upon the University's proposal and moved forward on the development of Jackson Park Terrace, now referred to as TWO's first major thrust in the total redevelopment of Woodlawn.

To enable TWO to proceed with plans for the site, the University also offered to make available a revolving loan fund to be used as seed money. Ten percent of the fund would be available for immediate use, such as hiring an architect and other necessary consultants, while the balance could be drawn upon request. In order to provide a cushion for later use, 5 percent of the estimated construction costs were to be set aside in an escrow account to cover any cost-overruns in construction.

By September 1971, preliminary plans had reached a sufficient stage of development to secure a letter of feasibility from the Illinois Housing Development Authority (IHDA) inviting TWO to submit a formal application for mortgage financing, subject to the receipt of acceptable schematic plans. As an authorized recipient of FHA 235 and 236 allocations, IHDA disburses these funds as they see fit to developers building multi-family or single-family housing. As in the case of JPT, IHDA sometimes applies the federal funds as a "piggyback" to their own funds, generated through the sale of securities, in order to permit housing complexes to be developed on a mixed-income basis. JPT is IHDA's first venture in an all black community. By the time this evaluation began in the summer of 1972, TWO was deeply involved in moving through the multitude of steps necessary to implement a project of this sort. Throughout the latter part of 1971 and all of 1972, TWO actively engaged in a series of negotiations and meetings geared toward acquiring the necessary approvals from the Department of Urban Renewal, Model Cities, HUD, the City of Chicago, IHDA, the University of Chicago, and on some issues, the community leaders of Woodlawn.

Major responsibility for the primary direction and coordination of concerned parties throughout the planning phase fell to the Director of the Center for Community Change, a Foundation-supported technical assistance organization engaged by the Foundation for this purpose. Other technical advisors were provided to the project to act as representatives of WCDC in insuring efficiency and timeliness on all aspects of the construction phase.

Several delays were encountered in the process of moving this project forward to the construction phase which began in June 1973, eight months later than expected. Some of the steps taken and the problems encountered were those confronting any developer, such as securing necessary permits from the appropriate local departments. Others were peculiar to the nature of this particular project, such as the necessity of obtaining approval of several, diverse concerned parties on virtually every significant element of the development process.

One example of the latter is the difficulty encountered in securing a general contractor for the project. In an effort to insure significant minority participation, TWO recommended to IHDA that the construction contract be awarded on a

joint-venture basis; IHDA agreed. Two firms, one black and one white, were approved by IHDA to begin detailed cost analysis. After several months, however, IHDA informed TWO that the white firm would not be acceptable because his performance on other IHDA jobs in the recent past had not been satisfactory. After a number of discussions with other firms, the Crane Construction Company was chosen. At the same time the black contractor chosen earlier, requested an award of the contract for the entire development. Both IHDA and the University of Chicago rejected this proposal, however, on the grounds that the company had no experience in high-rise construction. After persisting through negotiations with WCDC for several weeks, it became clear that WCDC would not override the objections of the funding sources and the black contractor withdrew from the project completely. Thus, Crane was designated the sole general contractor with the understanding that the firm would make every effort to involve minority contractors to the fullest extent possible.

The construction phase was initiated at the time milestone targets were being set. Although a construction period of 20 months was stipulated, completion of all 322 housing units was expected by July 1, 1974. Occupancy was expected to begin as of April 1, 1974 with approximately 80 to 100 units occupied by July 1.

Through September 1973, construction progressed on schedule, but problems arose which were deemed likely to cause delays in the near future if not resolved quickly. The most serious problem concerned the installation of the off-site sanitary sewer, a responsibility of the city. Since the sewer is the deepest utility, its installation is required before other underground utilities and paving, etc., can be done. Apparently, the city had made several commitments to start work, the first being June 1, 1973, but had failed to meet them. The city finally began work on the off-site sewer in late November, nearly six months after the initial commitment date. If all had gone smoothly beyond this point projections may have been met, but unfortunately, there were further delays in other areas. The lumber strike in November probably delayed progress somewhat, and this was followed by several days of inclement weather in December. Perhaps the most significant delay, however, was caused by the cement suppliers' strike. According to one WCDC official, the strike resulted in a two-month delay in construction.

Clearly, many of the difficulties arising over the last year could not have been foreseen by the staff or their technical advisors at the time target levels were chosen. Although none of the units had been completed by the end of the evaluation period, overall performance with regard to the construction of Jackson Park Terrace, in consideration of all the delays, is commendable. As of August 1974, five floors of the high-rise building had been turned over to WCDC and six tenants

had moved in. It was expected that the entire development would be completed by November 1974.

The general approach WCDC, and the other parties concerned with JPT, pursued in the planning and execution of the development displayed important contrasts with the approach to developing Woodlawn Gardens. Financial planning, for example, was seriously lacking in the earlier development, while for JPT financing requirements and potential financial problems for the construction phase were carefully analyzed before construction began. During the course of developing JPT, several revisions were necessitated by unforeseen changes in city building codes, by the energy shortage, and by changed plans for a security system. The cost increases resulting from these contingencies, however, would be offset to some extent by the revolving loan fund established by the University of Chicago as well as the potential savings WCDC expected to realize on interest for the interim financing. The potential cushion of interest savings was made possible by stipulating a longer construction period than necessary.

B. Strategic Objectives

The primary long-term goal WCDC hopes to realize with respect to Jackson Park Terrace is the viable operation of the development with an economically mixed tenant population. The desired tenant mix at the end of this evaluation consisted of 60 percent of the tenants paying market rents, 20 percent paying basic rents stipulated by FHA's Section 236 housing program, and 20 percent receiving subsidies under the federal Rent Supplement Program in order to pay the basic rental rate. What this will mean in terms of tenant family income distribution is difficult to specify at this point, but an examination of the income limits and corresponding rent structure applicable to JPT clearly indicates that the distribution would be skewed toward families with incomes significantly higher than that of Woodlawn's current residents.

In the discussion of Woodlawn Gardens,[1] the point was made that current rents on that project could not be raised without destroying the low- to moderate-income character of the project. In JPT, however, rental rates for the 40 percent of the units subsidized average 25 percent higher than those of Woodlawn Gardens. Market rates for the remainder of the units in JPT are nearly 60 percent higher than the subsidized rental rates there.

From the perspective of the low-income family seeking affordable, decent housing, the prospects in JPT are limited. Indeed, it may turn out that the great majority of low-income tenants will necessarily be ones who qualify for federal rent supplements because those whose income just exceeds federal rent supplement income limits will be

1. See pp. 99-100.

unable to pay the full basic rent,[1] particularly if rents are increased as anticipated. Consequently, a situation may result wherein many Woodlawn residents in need of improved housing are excluded from a housing development which was financed through a program designed specifically to provide housing for them.[2] On the other hand, it may be true that in the long run, the JPT experiment will prove to be a more successful model for improving housing conditions for low-income families than standard public housing has proven to be. Fewer families may benefit from each housing development, but qualitative impact may be far greater, although this remains to be seen.

Judging from a review of early profiles of approved tenant applications, there are strong indications that WCDC will be successful in achieving its desired economic mix of tenants. Based on our observations, the encouraging rent-up picture is attributable to three factors: one, the growing scarcity of rental housing in the surrounding area, partly due to the increased trend toward condominium-conversion; two, locational factors, such as the proximity to the University, the hospital, and recreational resources; and three, an aggressive marketing strategy.

The marketing strategy employed by WCDC has been particularly significant in generating the favorable response to JPT thus far. Beginning in early 1974, WCDC embarked on a concerted effort to market JPT as a modern, convenient, quality housing complex, offering an attractive and viable alternative to suburbia for the middle-class. A public relations firm was hired by WCDC to handle marketing, advertising, and public relations.

Emphasizing the various amenities of the development, marketing efforts were aimed specifically at certain desired target groups. University and hospital people comprised one target group. Based on initial inquiries, it became apparent that many residents of high-rises in other neighborhoods were interested so they became a target group. The third general target group was Chicago's black middle-class. With these primary groups in mind, brochures were distributed in the University and hospitals and went out to a mailing list of over 1,000 before the official grand opening. WCDC designated the Woodlawn community as another target group, although the marketing strategy with regard to Woodlawn was quiet compared to the overt marketing efforts aimed at the other target groups.

1. A technical advisor's report discussed the issue of the regressive nature of the basic rent structure for families in the middle range of 236 income limits, i.e., $6,000 to $9,600 per year. The basic point is that families with incomes in this range would have to pay between 30 percent and 40 percent of their income at the basic rental rate whereas families with lower incomes and higher incomes usually pay 25 percent to 30 percent of their income on rent.

2. See the discussion on pp. 45-46, which reflects the strategy of WCDC with respect to this issue.

The rationale underlying WCDC's strategic approach to the development of Jackson Park Terrace is based, in part, on the view that Woodlawn, as a community, cannot become viable if it remains an enclave for the poor.[1] In carrying out this first major effort toward total redevelopment, WCDC expects JPT to demonstrate the feasibility of creating a viable development with an economically mixed tenant population.

A thorough examination of the emerging financial situation of the JPT development suggests another reason why an economically mixed tenant population is desirable, and perhaps, necessary. A comparison of total estimated annual expenses relative to total estimated income based on subsidized rental rates[2] reveals that some subsidization of expenses will be necessary if debt service requirements are to be met. By the terms of an "operating subsidy" grant, IHDA has agreed to provide for JPT, supplemental funds will be available for this purpose for a time. When this grant has been depleted, subsidization could be provided, in principle, from funds generated from the tenants of JPT paying market rents on a continuing basis.

1. See discussion of WCDC's redevelopment strategy, Chapter 3, pp. 45-46.
2. Upon final closing, all rents collected above the basic rent for each unit must be turned back to IHDA according to the terms of the agreement between WCDC and IHDA.

THREE COMMERCIAL CENTERS

To understand the commercial center developments, we first studied the process of developing shopping centers as customarily followed by private developers and isolated the most important factors that determine the success or failure of shopping centers in general. We then traced the development of three CDC shopping centers paying particular attention to the critical factors thus isolated and examined how well the CDCs did with respect to these factors. In addition to the individual factors, such as financing and tenant selection, we also paid attention to the sequencing or timing of the various stages of development. Timing is a very important aspect of developing shopping centers, and we show how costly it is for the entire project when deviations must be made from the sequences followed in successful centers and when significant delays are incurred, as in the case of Restoration's Commercial Center.

Many of the trade-offs for the CDC in developing shopping centers are similar to those involved in housing developments. Both types of projects require large amounts of CDC resources which might otherwise be devoted to other CDC programs and priorities. In both commercial and residential ventures local community interests must be weighed against the overall viability of the project, as discussed in this chapter. Additionally, the reputation of the CDC within the community and with external funding sources is affected by the failure or success of these highly visible economic undertakings.

While the individual projects of Restoration, TWO, and Zion differ in many important respects, each has at least three common objectives:

1. to fill the community needs for improved retail outlets;
2. to develop a means of providing opportunities for local minority businessmen; and
3. to provide a major opportunity for CDC managers and staff to gain valuable experience in the various phases of commercial development.

This study summarizes the impact and some lessons learned from each of the three CDC shopping center ventures to date.

A. Shopping Centers: Critical Factors and Development Sequences

The smallest type of shopping center is the neighborhood center which usually does not exceed 100,000 square feet of gross leasable area (GLA). The anchor tenant (i.e., the primary traffic generator) in this type of center is, most often, a supermarket or a drug store. The primary function of this center is its convenience to consumers, rather than its selection of consumer goods. Intermediate or community centers are somewhat larger than neighborhood centers and range normally between 100,000 and 400,000 square feet of GLA. Here the anchor tenant is frequently a

junior department store and possibly a discount drug store, offering customers convenience plus limited comparison shopping goods as well as convenience goods. Finally there are regional shopping centers which range from 300,000 to over 1,000,000 square feet of GLA. The anchors for these centers will be one or more full line department stores. In these terms, Woodlawn Gardens Shopping Center and Progress Plaza are neighborhood centers with 54,000 and 64,430 square feet of GLA, respectively. Restoration's Commercial Center is a community center with 179.172 square feet of GLA.

Despite the differences in size and ultimate tenant mix, the initial development and management of any shopping center or fairly complex operation involves the coordination of diverse sets of participants and processes. In this regard we identified six critical factors whose mutual interaction to a large extent determines the success or failure of a shopping center. These factors are:

(1) site selection--the most important considerations here pertain to the characteristics of the trade area: demography, existing and potential competition, accessibility of the location and its physical properties.

(2) financing--method of financing, lease terms and rent structure considerations.

(3) tenant mix--requires information on the commercial needs of the selected market in order to guide choice of merchants to match demand in the trade area.

(4) layout--design of center should afford maximum visibility of all stores and generate customer traffic throughout.

(5) marketing--establishing and implementing effective mechanisms for marketing policies, e.g., merchants' associations.

(6) management--choice of an agent or individual to coordinate activities with respect to the center and handle problems of merchants within the center.

Timing and coordination of the various stages of the development sequence also bear significantly on the ultimate viability of the center.[1] The following sections review the experiences of the CDCs in developing shopping centers from the perspective of how the critical factors and their sequencing were handled.

B. Woodlawn Gardens Shopping Center: An Under-Planned Failure

The Woodlawn Gardens Shopping Center officially closed in 1973, acknowledging a failure which had been apparent to most observers for some time. Causes for the failure are numerous and probably had their origin in the beginning of the planning phases of that development.

1. These factors and the dynamics of their timely coordination are discussed in "Case Studies of Three Shopping Centers," Carl E. Snead, 0719-01-5, November 1974.

Woodlawn Gardens shopping Center was a neighborhood center with 54,000 square feet of gross leasable area, located near a busy intersection on the South Side of Chicago. The development sequence in constructing this shopping center differed markedly from the sequence adhered to by most private developers in the industry, and the unique sequence taken by TWO probably contributed to its difficulties.

The project was begun in 1963, not primarily as a commercial venture, but rather as a part of a residential-commercial package. TWO had no major interest at that time in becoming a commercial developer, but rather was interested in building housing in the Woodlawn area. The property on which the center was eventually constructed was owned by HUD. Although TWO was primarily interested in housing construction, the property was not residentially zoned In order to acquire the land, TWO had to agree to allocate a portion of it to residential development and another portion to commercial development.

The Kate Maremont Foundation, acting in an advisory capacity to TWO, thought the site had commercial potential and pushed for TWO to develop a shopping center. The feeling of Kate Maremont was that a commercial center, with its high expectations of revenue, would enhance the debt-service position of TWO for the single mortgage covering residential and commercial development. TWO did wish to promote the development of local black businesses in the area, and a shopping center could provide a vehicle for doing so. Thus, it was decided to move ahead with the project.

Much of the prudent exploratory and preliminary work was not thoroughly undertaken before construction of the center began or firm commitments were made. Spokesmen for TWO indicate that this planning was to be done by the Kate Maremont Foundation. Although we do not believe that the project lacked sufficient potential initially to justify TWO's involvement, it seems clear that much more planning from the very beginning of the project would have been required to realize any significant degree of success. The decision to build a shopping center in this case was not based on a careful consideration of projected risks against projected gains.

In particular, failure to undertake a major feasibility study prior to further planning for the center proved to be quite costly in terms of a series of misjudgements of expected revenue, monetary costs, and staff costs, as well as other requirements of a shopping center. For instance, initial expectations were that the center would provide $13,700 a month in revenue, of which only $9,500 was actually realized. There were other reasons why the actual sales volumes were not higher than they were, but the point here is that insufficient exploratory efforts by TWO in this project did not fully alert TWO to some of the contingencies that may have been foreseen.

Minimal investments could have been made in market studies to assess the general suitability of the chosen site for commercial expansion, rather than relying on visual inspections and gut feelings of the need for such expansion. Most of what we have identified as normal exploratory work for a proposed center was sidestepped by the developers. From what we have learned in our conversations with the relevant TWO managers and reviews of the written history of the Woodlawn Center, TWO launched into the commercial center entirely as an appendage to the residential real estate venture (which is reviewed earlier in this chapter).

Several difficulties encountered in this particular commercial venture were traceable to the unusual sequence of development stages. Negotiations with potential anchor tenants normally go forward during the preliminary phase, before construction begins, or even before architectural plans are finalized. The primary reason for this general approach is that after a developer has acquired a good sense of the scope of the proposed venture, he must identify potential sources of funds. Commitment from lenders require some commitment from tenants, although the exact extent to which the leasing program must be carried forward before permanent financing can be secured varies.

Both construction and permanent financing were provided by HUD, and construction began prior to a commitment by prospective center tenants. During the construction phase, tenants were identified and committed. Architectural and other planning which is done with particular tenants in mind is usually subjected to close scrutiny by parties who stand to gain or lose by the manner in which the planning is executed. There were no such external checks in this case.

The site actually selected for the center seemed ideal in several respects. The surrounding area was densely populated, with new housing developments planned concurrently with the center. There was easy access to the center from the "el," bus, car, or foot.

The major difficulty with the site was one that holds true for most inner-city locations, namely the unwillingness of national chains or AAA-rated tenants to locate in such areas. AAA companies have little incentive to incur the risks associated with retailing in low-income deteriorating sections of the city when other less risky options are open to them. Throughout the life of this center, attempts were made, most unsucessfully, to bring in major companies, like Les-On Drugs, which could have made a tremendous difference in the ultimate outcome of the project. Poor location was not the only factor deterring AAA companies, but it was an important one.

The financial factor, also, proved to be especially critical in the case of the Woodlawn Gardens Center. The rent structure, leasing agreements with tenants, and the particular method of financing this project all had their toll on the final outcome of the Center.

Both the interim and permanent financing were provided by HUD which, as we pointed out earlier, had its own reasons for financing the project. These reasons did not have to do with commercial, but rather with residential considerations. In the usual method of financing, private lenders impose restrictions on the developer which minimize the risk of default by requiring a certain percentage of the center space, usually 65 to 70 percent, to be leased to AAA-rated tenants. Top credit tenants are expected to provide enough minimum rent over the life of their leases to cover debt service, real estate taxes, operating and management expenses.

HUD placed no such restriction on TWO in financing this project, and TWO did not secure enough AAA tenants to cover its debt service from income derived from these tenants. TWO's difficulty in signing major tenants resulted in less than 20 percent of the gross leasable area being initially occupied by AAA tenants.

In addition, the remainder of the tenant mix in the center was inappropriate for the trade area it served. Consumers were not offered the range of convenience goods compatible with the requirements for a low-income neighborhood center. The limited line specialty shops in the center may have been more appropriate for a middle-income area than for Woodlawn.

A mismatch between the merchants and the trade area consumers was not surprising given the manner in which tenants were selected for the center. Tenants were selected and signed by TWO's Director with a view toward providing opportunities for black merchants and filling the center space. It does not appear that local retail needs played any significant role in the assignment of center space.

So we see here an additional negative consequence of TWO's departure from traditional industry practices with regard to developing a shopping center. Normally the feasibility study and market study, which have other uses as we have seen, will have additional pay-offs in terms of a detailed break-down of buying habits and needs of potential traders. Utilizing results of these types of studies by carefully selecting tenants may have helped reduce the mismatch between the center merchants and the community.

Compounding the difficulties derived from getting the "wrong" category of merchandisers in the center, TWO accepted a high risk trade-off in filling the center with so many local merchants. Had TWO been able to sign a larger number

of national companies with fewer locals, the rental income for the center would have been lower but more reliable. AAA tenants typically pay less rent per square foot than local companies owing to their stronger bargaining power. The local tenants in this center often defaulted on their rents, illustrating the preference of most permanent lenders for strong national tenants. It is doubtful that full effects of rent versus risk trade-offs were considered in selecting tenants for the center.

The site planning or lack of it was particularly critical in a shopping center like this one which relied primarily on foot traffic. The layout of the Woodlawn Gardens Shopping Center was sub-optimal, with respect to foot traffic as well as visibility of stores. The mall had shops and stores contained in three distinct buildings, a fact which worked to the distinct disadvantage of the smaller shops. It was estimated that about 50,000 persons shopped at the TWO-Hillman supermarket every month, but because of the separation of the supermarket from the mall area, most of these customers were not exposed to the rest of the center. Therefore, much of the effectiveness of TWO-Hillman's as an anchor or major draw for the center was reduced because of the center layout and placement of Hillman's within the center.

An additional attribute of the design of a center is that it should be as attractive as possible to traffic outside the center itself. In other words the design should serve as a sort of advertisement to potential customers in the area. The Woodlawn Center design had no such effect. To the contrary, the outward appearance of the center resembled a series of warehouses. Perhaps there is no way to calculate the actual loss of potential revenue in the mall attributable to customer ignorance of what the mall was all about.

Realizing the fruits of much of what has gone before, in the planning and development of a center, hinges on the adoption of a successful marketing policy. It is effective advertising, pricing, and promotion that the Woodlawn Center lacked and consequently much of the actual sale potential was lost. Several of the smaller shops were not able to realize sufficient sales to keep them afloat, to the detriment of themselves and the center as a whole.

Excessive retail prices were an important deterrent to achieving the volume of sales that would have been required for profitability of the local merchants. The low-income consumer frequenting the center simply could not afford the merchandise offered by the local merchants. Part of the need for setting high prices was the high overhead faced by these merchants. Rentals for the smaller stores averaged $5.75 per square foot as compared with $5.00 for the center as a whole. It is also apparent that many of these businessmen lacked experience in the techniques of

purchasing that would have enabled them to pass savings on to customers in the form of lower retail prices.

Advertising and promotion for the center also appeared ineffective though there were some efforts to bring improvements in these areas. The engagement of a successful shopping center advisory firm in 1971 did not bring in any results for the fledgling center, though it is difficult to say where the fault lay. What can be observed is that TWO failed to organize an effective merchants association, as a means of dealing with these various marketing difficulties that commonly occur in shopping centers.

Provisions for the development of a merchants association and for its financial operations are usually written into the lease agreement. The bylaws of the association which guide its activities must be referred to in the lease. The bylaws should spell out the objectives of the association which are namely promotional activities, publicity, special events, decoration, and cooperative advertising, as well as other joint endeavors on behalf of the center.

There was a merchants association in the TWO center, but it lacked both professionalism and adequate participation by members. For the most part, promotion and advertising were left to individual merchants. There was, therefore, no planning or consistency to the advertising.

Woodlawn Gardens Shopping Center, rather than providing a revenue source to shore up the residential part of Woodlawn Gardens, became a failure and a net cost. As described above, the failure came from a variety of factors. The most important of these were:

(1) poor prior planning with no major feasibility or market studies;

(2) weak tenant selection both with respect to merchandise offered and management capability; and

(3) little on-going control or management of the operation phase.

C. Progress Plaza: Candidate for Success

The experience of Progress Plaza has differed quite markedly from the Woodlawn Gardens Shopping Center in most important respects, though there have been some similarities. Progress Plaza is widely accepted as the most successful of the black-owned and developed shopping centers in the country, although it was not profitable as of June 1974. The ultimate profitability of Progress Plaza can only be estimated at this time, but our general assessment is that the Plaza is on the road to operating in the black.

Progress Plaza, like the Woodlawn Center, is located in a center city, near a major university, and is well served by public transportation. Regarding financing,

tenant mix, layout, marketing, and management of the center, Progress Plaza has outperformed the Woodlawn Center by a substantial margin. It is difficult to say which of these factors is most responsible for the relatively successful operation of Progress Plaza, since they all interact. We will, therefore, examine each of the factors in addition to the timing and sequence of various development phases.

The sequence followed in developing Progress Plaza was more nearly in line with typical stages and timing adopted by private developers than was true for Woodlawn Gardens. The more sophisticated approach adopted in developing Progress Plaza was undoubtedly a factor in accounting for the degree of success the Plaza now enjoys.

During the exploratory phase, the search for a site for the center was confined to suitable urban renewal land in North Philadelphia, primarily because of cost considerations. Suitability meant land which was clear of structures and located on a major thoroughfare in the city. Zion undertook no scientific feasibility study to determine the suitability of the site it selected, but it undertook various community surveys in an attempt to assess the likely response of potential trade area shoppers to a new center. Residents were asked what type of tenants they wished to see in the new shopping center. Generally, Zion fet that it had a rapport with the community which would be most affected by the proposed shopping center and that the community would support the center.

After acquiring the Broad Street site, a commitment from A & P was to serve as anchor tenant for the center, thus helping to firm up the financial package. Technical assistance and advice was solicited from the First Pennsylvania National Bank, the permanent lender for the project.

Several other merchants were approached for center occupancy, and many of them did their own market studies. On the basis of these studies, several of them accepted, suggesting the potential inherent in the project. There were no major difficulties experienced in initially getting tenants to join the center.

The site actually selected for Progress Plaza is well suited for retail expansion. It is well served by an improving public transportation system. There are bus routes on Broad Street and a rapid transit subway stop a block away from the Plaza. Several additional factors helped to make the site desirable for Zion's purposes:

(1) Some knowledge of community residents had been gained by the Zion organization in connection with other successful projects carried out in the community, including the Zion Garden complex. Strong support from this community is an obvious benefit of this location.

(2) New planned residential construction may enhance market potential in future periods.

(3) Close proximity to Temple University provides a rich source of sales potential.

Progress Plaza has been successful in converting the potential benefits to monetary gains, partially by attracting approximately 30 percent white patronage.

The major liability of inner-city locations, such as this Broad Street site, has been overcome by the Plaza. They have succeeded in attracting A & P and other AAA companies to this location. There can not be a more solid indicator of the attractiveness of a site than the willingness of AAA companies to locate there, based on their own market survey of the surrounding area.

The overall financial packaging of Progress Plaza was much better structured than that for the Woodlawn Center, though there were several errors made in packaging the Plaza, too. The total cost of the construction was $1,426,856 which represented 85 percent of the total cost of the center. The median ratio of construction to the total (capital) cost for neighborhood centers of the age group of Progress Plaza is 74 percent.[1] Construction of the Plaza was not based on competitive bidding or comparative selection of several firms. Rather, the role of general contractor for this development was granted to the party who relinquished his option on the site in exchange for the assigned role of general contractor. This arrangement did not prove particularly costly to Zion given an initial savings on land cost and the fact that no major construction difficulties marred the opening of the center.

Just as crucial as the relative construction costs is the leasing for the center, and it was in this area where many lessons were learned. The primary defect in the leasing program was an under assessment to tenants on their rentals. Rental rates charged to tenants were based on the typical rents charged for similar merchants industry-wide, as reported in The Dollars and Cents of Shopping Centers.[2] This approach to setting rental rates was no doubt a better one than a random determination of rent structure. However, rental rates were not sufficient to cover the costs of operating the center. For example, it was estimated that in 1972 eight of the leases in the Plaza had rent levels and common area maintenance reimbursements that were too low to cover the cost of the Plaza for that tenant's space. This was on an income and cash flow basis.

1. This figure excludes tenant improvements.
2. The Dollars and Cents of Shopping Centers: 1972, Urban Land Institute, Washington, D.C., 1972.

The initial mix of tenants occupying Progress Plaza was reasonably compatible with the retail needs of trade area shoppers, a result partly attributable to planning and partly attributable to the lack of major problems in signing tenants for the center. During the preliminary planning stages, consumers were surveyed directly as to what they percieved to be the major retail needs. Although the reliability of such community surveys is questionable, they are surely a better guide to selecting shopping center tenants than what was evidenced in the case of Woodlawn.

It appears that the tenant mix has contributed to the overall financial success of the center, providing each of the small merchants with more business than he might have generated had he located outside the Plaza. Difficulties experienced by some of the merchants within the Plaza do not stem from merchandizing the "wrong" type of retail goods, as was true to some extent in Woodlawn. Rather, the difficulties of some of these businesses stem from the inexperience of their owners in operating their own businesses.

The layout of the Plaza is a basic "L" that is commonly used for neighborhood centers, and has two levels. The first level houses the various retail outlets amount to 53,830 square feet of gross leasable area, with the upper level designated as office space with 7,600 square feet of space occupied by Zion affiliates. Because the parking lot is directly in front of both horizontal and vertical strips simultaneously, shoppers can leave their cars, go to stores in one strip, walk around to stores in the other strip, and return to their cars with far less walking than would be possible in a straight line strip. Visibility of one strip to another encourages greater interchange among stores than if all stores were spread out in a straight line or as the Woodlawn Center was laid out. Actually, the distance is not smaller unless the shoppers cut across the parking lot and shoppers are informed about what other stores exist in the complex. Both of these characteristics have encouraged greater pedestrian interchange than either horizontal or vertical strips.

This design is especially good for the Plaza's corner lot where one strip faces each of two major intersecting streets with parking in front of both strips at the corner. With one strip parallel to each street, maximum visibility of stores is achieved. Such a visibility factor is especially important to Progress Plaza because of its heavy reliance on foot traffic. Also, high visibility of available parking spaces is provided.

With regard to the marketing factor, Progress Plaza was much more successful than the Woodlawn Center in realizing the actual sales potential of the trade

area. Retail sales history, for which our data are incomplete, would provide the most meaningful assessment of marketing success. According to our information, however, sales and revenue projections for 1973 and the first six months of 1974 were not fully realized. Other marketing factors which should be noted are the activities of the merchants association and overall promotion of the center. As was noted in the discussion on leasing, tenants were under assessed for rentals so that the association has not been as financially strong as it might have been. New tenant leases which are being negotiated have strong provisions for tenant participation in the association, a factor which should improve the overall sales volume for the Plaza. Promotions have highlighted and afforded exposure to many of the smaller tenants and enhanced the overall performance of the Plaza. These activities partially explain the low level of vacancies experienced by the Plaza.

It was the management as much as any of the other factors we have noted that has accounted for the relative success of the Plaza (and the failure of the Woodlawn Center). The Plaza's manager has responded to the needs of the small retailers in the center by utilizing a Zion subsidiary, EDTC. The ownership and management training of EDTC has been a useful mechanism for assisting local merchants with little experience in operating their own businesses. A fuller utilization of the resources of the training center may be achieved by requiring participation of certain local tenants who demonstrate the need for such training.

D. Sheffield Commercial Center: A Troubled Beginning

The experiences of both the Woodlawn Garden Shopping Center and Progress Plaza provides a useful backdrop against which we may summarize the history of the Sheffield Commercial Center to date. There were important similarities and differences between the development stages and timing for the three projects. The major contrast between the Sheffield project and the Woodlawn Center is in regard to the extensive planning and exploratory work done by Restoration for Sheffield and the comparatively little done for the Woodlawn Center.

The Commercial Center, which is the largest of the three projects, is to be a community center consisting of 175,530 square feet of gross leasable area. The project is funded by a combination of private and public funds. Special impact and private foundation funds (both grants and loan guarantees), private bank loans, and Restoration funds have come into play. The initial estimate of the total project cost was $5.88 million, but in April 1973 this estimate was revised to $6.95 million, an increase of over 18 percent. Approximately 87 percent of the increase was due to design changes and 13 percent to

price changes. The increase has necessitated an upward revision of the required average tenant rentals from about $5 to about $6.25 per square foot.

The initial schedule called for construction to start in July 1972 with substantial completion of the project in November 1973. At the end of our milestone period, July 1, 1974, the project had not been completed. Expectations that the center would open in November 1974 were subsequently revised to a target date in late spring of 1975, a delay which required a further increase in carrying costs for the project.[1] The Commercial Center opened on October 2, 1975. At the time this evaluation ended, the long-term viability of the center could not be determined although the financial situation was a continuing matter of concern. Restoration officials, while recognizing the risks, remained optimistic about the Center's prospects. Reasons for continuing concern, as well as positive aspects of the Center are discussed below.

The exploratory phase of the Sheffield Center was thoroughly executed by Restoration. Sophisticated and detailed market and feasibility studies were conducted in analyzing the suitability of the project at its current site. The conclusion of these studies, of course, indicated that the project was a viable one, provided proper administrative and managerial plans were developed and implemented. Some of the major advantages of the project and the site were: (1) a very large market by normal industry standards, (2) perceived good relations between the owner and the community, (3) increases in family income in past decades, (4) negligible local competition, (5) built-in security and safety system, and (6) excellent mass transportation facilities.

Disadvantages were thought to be mainly of a short-term nature. They included: (1) limited income area, (2) instability of area due to high crime, fragmented families and inadequate housing, (3) low educational and occupational attainment of area residents which affects earning capacity and consumption habits, and (4) limited parking facilities.

Other major elements of the planning involved the projected tenant mix and the center layout. The projected tenant mix for Sheffield reflects a conscious attempt to meet major retail voids in the area. This represents a sharp contrast with the case of Woodlawn, where tenants were selected on an almost "anyone interested" basis. Retail voids were identified with aid of market studies and data analysis done by the Economic Development Department and Restoration's Research Office.

1. In May 1973, Foundation technical advisors estimated that monthly carrying costs for a vacant center at the beginning of 1974 would range from $65,000 to $86,000 depending upon tax assessment rates.

The data analysis included a computerized inventory of all the businesses in Bedford Stuyvesant. Some of the retail voids indicated by this study were:

1. major supermarkets with reasonable prices,
2. clothing shops with quality merchandise, and
3. restaurant and specialty shops.

Present plans are to bring most of these sorts of businesses into the center including a supermarket which will be the largest in the community, clothing stores, and specialty shops.

The center also plans to provide other amenities which should serve to make the center more attractive to its clientele. There will be, for example, an ice skating rink, fountain, and plaza, as well as other services. It is not clear at the present time that all of the planned amenities, including the skating rink, can provide a net benefit to the project. The skating rink is not likely to generate enough revenues to sustain its operation and will therefore require subsidization from the remaining tenants. The anticipated mix between national and local tenants is approximately 60 percent and 40 percent, respectively.

The layout for the Sheffield Center is not the most common layout found in community centers, although it is similar to some recent centers in Washington, D.C., San Francisco, and elsewhere. Its effectiveness at this point cannot be assessed with any degree of certainty. The interior of the mall is aesthetically pleasing and is sure to provide shoppers with a pleasant atmosphere in which to shop, marking a sharp contrast with the decaying environment surrounding the structure. At the same time, there are basic difficulties which the present layout must overcome if the full potential of the center is to be realized. Among these is the visibility for the merchants within the center. Most of the shops are not visible from the main streets or intersections facing the center. Shoppers have to enter the mall area by passing between the special walkways from the street in order to see the full range of stores and shops within the center.

While the extent of the exploratory investigation, preliminary and final planning for the Sheffield Center has been much more extensive than the corresponding phases for Woodlawn and Progress Plaza, the timing and sequence for the Sheffield Center has been unusual and symptomatic of special difficulties not discussed extensively in the case studies for Woodlawn and Progress Plaza. They center on various components of the financing factor, which we have seen can be especially critical for the viability of an entire project. More specifically, difficulties experienced with the construction of the center have proven costly for Restoration and have illustrated the interdependence of factors critical for shopping center development.

As was true of both of the other shopping centers, the awarding to the construction contract for Sheffield Center was not based on strictly economic criteria. That strategy may have meant competitive bidding or some other process of identifying the most capable contractor for the given amount of financial outlay which Restoration was prepared to make. Instead the role of contractor was awarded to a subsidiary of Restoration, BSRCC, in order to provide a potentially valuable learning experience to BSRCC even though they were not the lowest bidder on the job. This was in keeping with Restoration's intention to develop its minority contractor into a competitive and capable contractor. However, BSRCC was not able to perform as expected, resulting in costly construction delays, and a shifting of the general contractor role to another Restoration entity, RDC-CC.[1] At the time of this change, April 1973, the project was seven months behind the initial schedule.

Leasing difficulties being experienced by Restoration are partly attributable to delays in construction. Other sources of leasing difficulties stem from the posture of the AAA companies regarding commitments to this inner-city project with its relatively unknown developer (RDC-CC). In most commercial center developments, leases (or strong assurances) are required prior to construction. As of July 1, 1974, however, only one lease had been executed for the center, although two more were out to be signed. Many of the national companies expressed to Restoration an unwillingness to commit themselves to the project until the physical structure was substantially complete. The prevailing attitude among some of these companies is that the project is identified with the poverty program and is therefore a high-risk venture. They demand, as proof of Restoration's capability, a physical structure which attests to both the seriousness and capacity of Restoration to undertake a project of this scope. It has meant proceeding with the development of the center in an atmosphere of uncertainty as to the securing of lease income.

Directly relating to the leasing problem is that of securing permanent financing. Of the approximately 60 percent of AAA-tenant occupied space desired by permanent lenders, only 28 percent of the GLA was leased to AAA companies. Hence, the securing of permanent financing is being adversely affected by delays in construction. Added to these consequences are the increased overall project costs resulting from construction delays as well as from the revisions due to design and price changes.

There are additional problems that will need to be addressed after the center opens. Among the most important of these, given the degree of social commitment of all the CDCs as well as the overall success of the center, is some form of assistance to local tenants. The structure of Restoration, like that of Zion, is especially suited to provide aid to local merchants. The Economic Development Division can

1. See, also, discussion of BSRCC in Chapter 2.

commit technical and management assistance to many of the merchants in addition to financial assistance. This assistance will include such services as accounting to managerial assistance, refinancing proposals, advertising, and sales techniques. We would expect therefore the performance of local merchants to more nearly resemble that of locals in Progress Plaza than of those in the Woodlawn Center.

Conclusions

Undertaking large commercial ventures has resulted in several important consequences for the CDCs. Among these, is that each CDC has become more keenly aware of the need for extensive planning for ventures of this kind and has demonstrated that awareness in the preparations being made for future projects. Both Zion and Restoration are planning to build additional commercial centers and each of them is undertaking sophisticated analysis of the need and feasibility of the proposed ventures. Restoration is developing its own research capability in part through its subsidiary, Restoration Research office, while Zion is utilizing the resources of external firms. Success for the CDC is not guaranteed by this sort of extensive preplanning, but its prospects are considerably enhanced.

The development of these first shopping centers by the CDCs have also necessitated the reliance, to a varying extent, on the use of outside financial and technical assistance. This outside support has not been uniformly beneficial to the CDCs. In Woodlawn, the shopping center was sponsored by the TWO-Kate Maremont Foundation Development Association. In this arrangement the Kate Maremont Foundation provided financial support and planning while TWO provided some staff to develop the center. Neither party to this joint venture raised the sorts of issues that must be raised concerning the requirements of developing and managing a shopping center for an organization the size of TWO.

In Restoration technical assistance was provided to assist RDC-CC in leasing the center. The effort did not appear to substantially speed up the leasing. Concern was expressed at Restoration that technical advisors take considerable time in learning the operation rather than offering constructive advice.

Zion, on the other hand, was able to secure technical assistance informally from a major bank, The First National Bank of Pennsylvania, the permanent lender for the project. The general view was that this advice was generally helpful. This suggests structuring advisor-advisee relationships in such a way as to relate the compensation of the technical advisors to the outcomes of the project in addition to utilizing those especially competent in their areas of expertise.

Having completed the present shopping center ventures has afforded the CDCs an exposure to the financial community which is an important step toward the CDC becoming a viable entity representing community interests. They are developing "track records" which will make them more credible in the eyes of potential lenders, potential tenants, and community residents. Strong belief in the demonstration and substantive effects of successful large-scale projects by CDC management has motivated attempting these projects. The difficulties we have noted in connection with developing these centers may be thought of as investments in the capital stock of the CDCs, consisting of informal contacts, within the financial and business communities, which are needed, and the technical competence the CDCs have acquired in putting all the shopping center pieces together.

One of the major lessons to be learned from these projects is that when strictly "economic" and strictly "social" goals are combined in a project strains may develop. Achievement of the "social" goal of promoting black entrepreneurs may be reached, but it must be built on a sound economic base. To attempt to develop a shopping center primarily on the strength of local inexperienced merchants can spell disaster both for the merchants and the center as a whole. The Woodlawn center did not attract enough strong national tenants to the center to reduce the risk of failure for the entire project. Both TWO and the merchants lost when the center failed.

In Progress Plaza, attempts were made to encourage minority businesses by offering lower rentals than sound economics would dictate. Although the Plaza experienced some loss of revenue for this policy, it was not serious enough to jeopardize the entire project. What may have been partly responsible for the success the Plaza achieved in reaching its social goal of assisting local black businesses was the availability of its training program EDTC. The EDTC training and PVCC financial assistance have provided a measure of benefit to local businessmen. A more structured relationship between these entities and the Plaza would probably enhance the performance of local merchants within the Plaza while improving the overall performance of the Plaza itself.

In Restoration, the Economic Development Department has become formally involved in the process of aiding local tenants. This more explicit involvement of the appropriate subsidiary entities in providing assistance for the local tenants is a promising means of accommodating both economic and social goals.

CHAPTER 6

SUMMARY OF OBSERVATIONS AND CONCLUSIONS

The previous chapters have summarized the performance of the individual component entities and programs of the CDCs. The quantitative information derived from setting the milestones and recording the actual achievements relative to them represents the beginning of an historical record of CDC activities and output levels which can provide a basis for the development of reasonable performance standards. In Section B of this chapter we draw some general conclusions from the assessments in the previous chapters, compare CDC activities and performance, where appropriate, and provide a brief overview of the current status and future prospects of the three CDCs.

Before doing so, however, we will comment on some key aspects of the context and problems faced by CDCs, based on our observations in carrying through this study. In our view, these broader issues require explicit attention if the CDC idea is to be analyzed and evaluated property.

A Observations and Issues

We have distinguished three general classes of variables which influence CDC resources, choices, and resultant community outcomes:

(1) national and metropolitan-wide changes;

(2) external development support institutions; and

(3) the organization and choices of the CDCs themselves.

That they are all important is clear; but, the relative influence of each of them is virtually impossible to establish in any rigorous way. While it is not sensible to pretend that such a precise calculation of influence is possible, valuable information would be derived from a thorough analysis of the kinds of issues raised here, an effort which goes beyond the scope of the present study. Although we do not pretend to have reached definitive conclusions on many of these issues, we do think it important to emphasize that the analysis of current performance of CDCs discussed in Chapters 2 through 5 is not the only aspect of evaluating the CDC idea which is relevant; nor is its quantitative assessment the only way to tell whether or not CDCs are worthy of support.

1. Influence of National Trends and Metropolitan Comparisons

Community development corporations are not less, but probably more, affected by the impact of national and broader urban changes than many organizations. These changes, over which the CDC has relatively little control, range from the obvious direct impacts of shifts in public programs, such as the moratorium on rehabilitation and other housing by HUD, to the more complicated interactions with the national and regional economic picture. The lengthy inflation and more recent recession experienced nationally, for example, have hit poor and minority communities with particular force, exacerbating the unfavorable conditions already present. As a result, opportunities for CDCs to mobilize resources have declined while the set of problems they attempt to address has grown.

At the same time that the national economic picture has become bleak, the Federal Government has shown increasing signs of backing away from the social and redistributive programs of the 1960s. OEO has been dismembered, low- and moderate-income housing programs severely reduced, and income or welfare support programs under serious fire. General revenue sharing has not been used by state and local governments to maintain the levels of effort in social programs achieved under categorical grants; nor has special revenue sharing developed as a viable alternative. The combination of directions in federal policy and national economic trends paints a very serious and bleak picture for both CDCs and the communities they serve.

Two other sets of data comparisons are pertinent to the determination of program priorities and needs for the individual CDCs and for those assessing the programs of several CDCs. They are: (1) comparisons between socioeconomic conditions in the CDC-supported community and the city in which it operates and (2) comparisons of these conditions among CDC communities.

The first set of comparisons, mentioned in the introduction of the report,[1] provide a sense of how adverse the community's conditions are relative to those of the city. Relative income levels, unemployment rates, housing costs and conditions, and public service levels, for example, can be utilized as a rough approximation of the relative needs in the local area. The second set of comparisons provides some indication of the variations in problem sets faced by different CDCs,[2] and hence, some clues about the desirability of different program structures among CDCs. The information derived from both of these perspectives is important in understanding the nature of the environment CDCs operate in.

1. See discussion on pp. 5-6.
2. Illustrative comparisons are discussed on pp. 140-143.

2. Influence of External Development Support Institutions

a. Resource Mobilization and Resource Allocation[1]

Many evaluation models ignore the problem of generating resources by assuming that the organization being evaluated is vested in some manner with sufficient resources and that its major problem is to make "correct" allocation choices among activities. For a full-scale analysis of CDCs this approach is insufficient for two major reasons: (1) in many cases, funds available to CDCs are to be used for quite specific activities and no others (there is relatively little discretionary money); and (2) CDCs have to develop a resource mobilization strategy (utilizing already scarce resources for this purpose) which is distinct from its resource allocation strategy. Some managers interviewed during our evaluation estimated that resource mobilization requires up to about 25 to 30 percent of the time of key staff.

The ability of a CDC management to respond to information about needed changes in programs only exists over a range of outputs for which resources are potentially transferable. In short, the CDC's range of choices may be constrained by the requirements of those providing funds rather than by their ability to identify alternative output mixes and produce them. A possible solution, of course, is more discretionary funds.

However, the CDC, as a development institution, operates in a highly complex, mutually interacting system in which the generation of discretionary funds is neither assured nor automatic. A development institution such as a CDC is inevitably placed in a situation where it must perform simultaneously a dual role, since it is not self-sufficient. On one hand, the CDC's planning, programming, and program allocations must relate to the needs and interests of its community constituents. On the other hand, the CDC's resource mobilization activity must relate to development support institutions. If the contrast between the views of those providing funds and the community's is sharp, the CDC may not be able to generate sufficient funds to become self-sufficient even if most programs are devoted to generating revenue. While the CDC (or any other development institution) is not unique in having to play this dual role, the problems posed by the dual roles are significant in an overall assessment of CDC progress and prospects.[2]

It is not realistic to expect CDCs to generate sufficient revenues from their profit-making ventures to maintain even their current staffs and activity levels

1. This idea is discussed more fully in "Program Evaluation and Policy Analysis of Community Development Corporations," Harvey A. Garn, in "The Social Economy of Cities," Volume 9, URBAN AFFAIRS ANNUAL REVIEWS, Sage Publications, Inc., 1975, and an Urban Institute Reprint URI-10132.

2. "An Approach to Issue Analysis for CDCs," Harvey A. Garn, Nancy L. Tevis, and Carl E. Snead, Urban Institute Working Paper 0719-01-3, August 1974.

over the next few years, nor is it clear that CDCs should do so from the perspective of community valuations. Moreover, a CDC is unlikely to be vested with either taxing or budget decision authority in order to provide resources to allocate to social programs in the foreseeable future. Therefore, the separation of resource suppliers to and the customer/clients (the community) of the CDC is likely to continue, creating possible dilemmas between resource mobilization and program allocation strategies. In this circumstance, it is important to those providing resources to CDCs, the CDCs, and the communities served to identify those arrangements in which the CDC can pursue complementary resource mobilization and resource allocation strategies or, if that is not possible, arrangements in which conflicts between the two can be ameliorated.

b. External Funding Sources

Many of the programs which have provided funds for CDCs have experienced a decline in funds. Others have changed the emphasis of their operations which has affected, in turn, the allocations of funds in CDCs. The housing moratorium is an example of the first change. The OEO Special Impact Program is an example of the second.

The housing moratorium frustrated the housing plans of many organizations in the urban areas. Even in those cases where the organizations were able to find alternative sources of funds, considerable delays were experienced.[1] In other cases, the moratorium created an impetus for the CDCs to shift attention to efforts to build moderate- to middle-income housing rather than low-income housing.

The changes in the OEO Special Impact Program included both a reduction of funds and a change of emphasis.[2] The basic shift of emphasis in OEO was toward short-run self-sufficiency--particularly through development of individual minority entrepreneurs--and away from social programs. These attitudes are shown in the Sixth Annual Report of the National Advisory Council on Economic Opportunity. There the National Advisory Council states:

> The Advisory Council recommends, therefore, that the broad social development aspects of CDCs be subordinated to the objectives of establishing self-sufficent, successful business enterprises capable of attracting financial, technical, and other business development resources and providing employment for target-area

1. These factors account for some delays in the housing and rehabilitation programs of both Restoration Corporation and The Woodlawn Organization.

2. Of the CDCs we have been evaluating, only the Restoration Corporation has funds from the Special Impact Program. This program is the major funding source for Restoration.

> residents. The Advisory Council recommends that CDCs channel all funds into economic ventures and programs for their support.
>
> The Council further urges that no money granted to community development corporations be specified for social development activities; social development programs should be administered by more appropriate agencies.[1]

Such an approach can threaten the more balanced approach to programming currently characterizing CDCs and lead to expectations of short-run improvements in profits which are unrealistic. Perhaps more importantly, program strategies consistent with the criteria of the Advisory Council can jeopardize links which CDCs maintain with their respective communities, since such links depend, in part, on the community's expectation that the CDC will continue to address itself to a range of social as well as economic needs.

A change of emphasis by the Foundation, also, exemplifies the repercussions external funding sources may have on both the organization and activities of the CDCs. All of the CDCs which we are evaluating receive a considerable portion of their staff support and discretionary funds from their Foundation grants. The emphasis by the Foundation, over the course of our evaluation, on larger-scale, more integrated development packages has resulted in an increased emphasis on real estate and physical development, management changes, and more formal separation of the social program entities (largely not-for-profit) from the potential profit-making economic and physical development entities. Each of the CDCs evaluated has continued, however, a broad emphasis on social programs as a needed complement to economic and physical development even though the former programs will require continuing subsidy. Over time, these subsidies could come from revenues from economic and physical development activities.

The Special Impact Program (now Office of Economic Development, Community Services Administration) has recently emphasized gaining such revenues as the route to self-sufficiency. Self-sufficiency is normally interpreted as the ability of the CDC to generate sufficient revenues from its for-profit subsidiaries to maintain itself in the absence of public or private grant support. Implications of this increased emphasis on profitability for program options and choices by the CDC need to be explored.

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1. National Advisory Council on Economic Opportunity, Sixth Annual Report, June, 1973, Washington, D.C., U.S. Government Printing Office, 1973, p. 4.

Everyone agrees that CDC programs should be efficiently run. It is not entirely clear, however, that everyone understands "efficiency" to mean the same thing. From our perspective, "efficiency" should be broadly defined as "achieving the maximum increase in community welfare from the utilization of a given set of resources." Although it may seem somewhat paradoxical, proof of maximum production efficiency of each entity of the CDC does not necessarily imply maximum efficiency from this broader view. Furthermore, observations about the degree of profitability of an entity are not sufficient to prove that the entity is necessarily efficient in production or, by extension, efficient in terms of community welfare.[1]

These factors need to be stressed because some who argue for increasing self-sufficiency of CDCs seem to imply that the arguments for profit-making ventures in CDCs are, at the same time, arguments for eliminating "inefficient" social service programs in favor of "efficient" for-profit programs. There is, however, no a priori reason to believe that efficiently run for-profit activities are necessarily superior to efficiently run not-for-profit activities in achieving improvements in community welfare.[2]

Ultimately, all CDC activities should be judged from the community welfare perspective--economic and social service programs; for-profit and not-for profit entities. Profitability of CDC ventures is an instrumental output. Indeed, the self-sufficiency of a CDC is an instrumental outcome. Whether it is a good or bad outcome depends on the uses made of the revenues by the self-sufficient institution. To underline the point, the community may place a different relative value on outputs than the market or society at large, which could necessitate some sacrifice in profits in order to respond to these community valuations. Community interests, obviously, would not be served by wasting resources; but they may not be served best by utilizing scarce resources only to produce outputs which maximize profits. Social services may have a value to the community which is high enough that the CDC should sacrifice profits to maintain them.

It remains true, however, that the idea of self-sufficiency is a powerful one, working simultaneously on funding sources (both public and private) which do not want to contemplate perpetual support and to CDC officials who see the increased flexibility and insurance against adverse funding decisions by external

1. These points are discussed at greater length in "Program Evaluation and Policy Analysis of Community Development Corporations," op. cit.

2. We show why it is inherently more difficult to establish the degree of production efficiency in many not-for-profit activities than in many for-profit activities in the publication cited.

sources which would come from self-generated revenues as a great advantage. It should be recognized, however, that the pursuit of those activities with the most profit potential is not necessarily the same as pursuing those activities with the greatest potential for enhancing community welfare.

3. CDC Organization and Some Strategic Choices

All of the CDCs are more formally structured than they were when we started the evaluation, although there is less change in Restoration than in the others since Restoration has been more formally structured throughout. The increasingly formal structure of the CDCs permits clearer delineation of the responsibilities and goals of each subsidiary. It, also, permits more explicit delegation of authority to managers of the subsidiaries, which facilitates more consistent planning within each subsidiary. At the same time, it increases the necessity for developing planning mechanisms to take account of possibilities for joint action across subsidiaries and minimize conflicts among subsidiary objectives. Restoration has carried through this process most completely, TWO somewhat less so, and Zion least among the CDCs evaluated.

During this evaluation milestone targets were developed with subsidiary managers, but there was no formal mechanism established to consider the joint implications of these subsidiary targets on the overall CDC effort. In the future, an effort should be made to incorporate such an extension. This would be especially useful given the increasing tendency of the CDCs to engage in larger scale projects involving the joint activities of several subsidiaries. In such a situation the output and cost projections of each involved subsidiary are, to some extent, conditioned by progress on the joint project.

Large-scale projects provide opportunities for joint learning and coordination among subsidiaries which are not present in collections of smaller efforts. They provide opportunities for joint ventures with established firms, which also may facilitate learning of the detailed processes required to make projects go. They make a visible impact on the community by offering tangible evidence of positive activity, which is in sharp contrast with the deteriorating physical structures in surrounding blocks. The successful development, construction, and operation of such projects are also seen as means of enhancing the credibility of the CDC as a development institution with external funding sources and those who might provide complementary investment in the community.

Some of these potential benefits are achievable (particularly those related to CDC learning and coordination within the CDC) whether or not the large-scale

project reaches its expected levels of output or commercial success. Many of the benefits, however, depend upon the degree of success of the major projects, both in terms of outputs and their distribution.

The complications inherent in making large-scale projects work to produce revenues rather than serious cost overruns often requires more experience and expertise with the details of a particular kind of development than CDC staffs currently have. The role of both the technical advisors and joint venturers is to provide such inputs. The quality of the inputs is probably enhanced by the current efforts to tie the return to the advisors or the joint venturers to the successful outcome of the development with positive inventives. Insofar as this is true, joint venture arrangements with established firms appear to be a better alternative than technical assistance, even when the latter is fairly continuous.

The ultimate level and distribution of benefits and costs of projects of the scale of WCDC's Jackson Park Terrace and Restoration's Commercial Center cannot be definitively established at this time. Both major projects were undertaken after considerable planning and as part of a conscious strategy by the CDCs to make more dramatic changes than are associated with more scattered efforts. The integrated efforts by subsidiaries required for such projects can be viewed from this perspective as effective utilization of complementarities among entities rather than increases in simultaneous risk. In Chapter 5, we note both promising aspects and areas of residual concern. Should the promise be achieved, the CDCs would not only reap the potential advantages cited earlier, they would also have further distinguished this new institution from other, more scattered programs for inner-city improvement. On the other hand, if they do not succeed, the high visibility of the projects increases the likelihood of serious adverse criticism of the CDC program.

We conclude this section with some general comments on CDC program choices and options. We did not attempt, in this evaluation, to determine an optimal program mix against which to judge the actual programs being conducted by the CDCs. Rather, for this phase of the evaluation, we took the current programs as given and evaluated their performance. A more complete analysis such as that contemplated for subsequent phases of the evaluation, would address questions of the relative value of programs and could, therefore, provide information about possibilities for shifting funds from one program to another, assuming discretionary funds were available.

Choosing an optimal program mix for a particular CDC requires knowledge of several sets of functional relationships. The basic relationship is between costs

and levels of output. Once this relationship is known, it can be converted into further relationships between costs and the market value of output by multiplying output by unit prices (or proxies for such prices) and the community value of output by multiplying by a measure of community value.[1]

There is no scientific way of making trades between the programs which are rated most highly on the criterion of most market value per unit cost and those which are rated most highly on the criterion of most community value per unit cost. There are, however, systematic methods for developing data which would provide usable inputs to CDC managers, those providing funds, and external critics and supporters as they attempt to assess the opportunity costs[2] of both current program mixes and possible alternatives. These data consist of historical records of outputs and the costs associated with producing them as well as some means for assigning community values. Our evaluation design includes all of these elements. In this phase of the evaluation, the data on outputs are most complete. Further work is required to get data on the other parts of the overall design. Since all of these data contribute to understanding what "reasonable performance" is for such a new and highly diversified entity as a CDC, we recommend such further work.

B. Summary of Conclusions

1. General Conclusions About Subsidiaries and Activity Structure

The subsidiary entities of all of the CDCs tended to fall short of the expected milestones which were established for the period from July 1, 1973 to July 1, 1974. These shortfalls are attributable to overly optimistic expectations, events which were not or could not be anticipated at the time milestones were set, and disappointingly low performance levels in some cases. We have made no attempt to statistically determine the relative strength of each of these factors. There is evidence cited in Chapters 2 through 5, that each of them was significant. The discussions of the milestones and achievements of each entity qualitatively treat the events and circumstances known to have influenced performance relative to milestone targets in addition to the quantitative aspects in each case.

CDCs had developed a practice of stating optimistic expectations, partly in order to generate funding. We were not particularly surprised, therefore, with this general outcome, although CDC managers were encouraged to state realistic milestones. On the other hand, we found little effort on the part of CDC

1. A version of this kind of measure which we have suggested is a "community welfare weight."

2. Opportunity costs are stated in terms of what must be given up or, in effect, traded for what is in fact chosen.

managers to set unduly low targets for themselves. Recent managerial and organizational changes in each of the CDCs should increase the ability of subsidiaries to project outputs, anticipate a wider range of possible problems, and increase output rates in future periods. Improvements in these areas are needed.

In order to summarize the performance of the CDCs in the milestone framework, we made three sets of comparisons of a representative set of 95 milestones. First, we compared each milestone target with the previous year's actual level of output. Second, we compared actual output levels in the evaluation year with the corresponding output level in the prior year. Finally, actual outputs were compared to targeted outputs for the evaluation year.

The results of these comparisons show that overall, the CDCs projected increased output levels in 1973-1974 over 1972-1973 levels for about 80 percent of the outputs. Actual increases in outputs were achieved in about half of the cases. Restoration Corporation achieved increases over the 1972-1973 experience in 54 percent of the milestones, compared to projected increases of 80 percent. TWO achieved increases in 52 percent of the milestones, compared to projected increases of 70 percent. Zion showed the greatest relative shortfall among the three CDCs. They projected increases in 91 percent of the milestones and achieved increases in only 42 percent.

The results of the third comparison show that targets were equaled or exceeded in 22 of 95 cases (slightly over 22 percent). TWO's performance here was the best relatively. Performance was equal to or better than projections in about 37 percent of the cases. Restoration Corporation equaled or exceeded the milestone targets in 22 percent of the cases. Zion, again, showed the worst performance, equaling or exceeding the milestone in only nine percent of the cases. The comparisons indicate a need for improved forward planning and output estimation in the CDCs.

a. For-Profit Subsidiaries

In Restoration, the for-profit divisions are the Physical Development Division and the Economic Development Division. In TWO, the for-profit entities are contained in the Woodlawn Community Development Corporation. In Zion, the for-profit division is Zion Investment Associates. Relatively few of the for-profit subsidiaries have moved from the status of potential profit centers to actual profit centers during this evaluation. Although few are currently profitable, all are engaged in activities which are able to generate "own" revenues. Most of the expected income for the for-profit subsidiaries is in fees for service, with the exception of ZIA and WCDC's commercial enterprises. Since most of the current activities involve

work for the parent CDC or another of its subsidiaries, little of the fee income is currently generated from community residents or directly from "outside" sources, although some of the subsidiaries have added to their "outside" work during the evaluation.

Little of the for-profit activity in the CDCs is in manufacturing. However, ZIA, through Progress Aerospace Industries and Progress Products Company, does engage directly in light manufacturing activity. Similarly, through Progress Venture Capital Corporation in Zion, and the Economic Development Division of Restoration, the CDCs have some equity in manufacturing activity. The latter division, however, is now mainly focused on construction and retail activities.

Most of the for-profit activity in the CDCs is oriented toward real estate development, housing, and commercial developments. It is too early to tell whether the major, and generally new, real estate planning and development functions (Real Estate Management and Planning in WCDC, RDC, and RDC-CC in Restoration, and PDSC in Zion) will be able to generate substantial revenues. The experience of PDSC is the least promising of the three. The Real Estate Planning and Development function in Woodlawn is the newest.

Construction companies exist in Zion and Restoration. The most recent experience of Progress Construction Company is more promising than its past performance. BSRCC, Restoration's construction company, has had difficulty in both rehabilitation and new commercial construction. Sheffield Rehabilitation Corporation has now assumed the responsibility for rehab construction and RDC/RDC-CC for commercial construction in the Commercial Center. Coventuring with outside firms in construction has produced mixed experience. TWO/WCDC has no present intention of operating as a general contractor, so far as we know.

Property management is showing some promise in all three CDCs, although the bulk of the work to date is for CDC-owned properties. Property Management in Restoration, however, operates an FHA Securing and Maintenance contract for a substantial profit to Restoration in addition to managing Restoration properties. Progress Property Management is actively seeking outside industrial, commercial, and housing contracts. Property management in TWO/WCDC has been fully occupied with the attempted turn-around of Woodlawn Gardens and start-up of Jackson Park Terrace and has generally not sought outside clients.

The rehabilitation programs have had ambiguous results. To a considerable extent this is because of difficulties in securing funding, but also because of the costs of doing rehabilitation work once funding is achieved. Woodlawn's first rehab package has experienced numerous difficulties; it was not yet completed at

the end of the evaluation. Sheffield Rehabilitation Corporation has energetically pursued and obtained conventional financing for a number of rehab sites. The expected average cost of these packages per unit, however, is $24,703 which leads to a restricted market for profitable resale or lease. Zion has not engaged in housing rehabilitation as a program component, although the Construction Company has recently obtained contracts for rehabilitation work. Restoration has the only mortgage brokering function, Restoration Funding Corporation, in the CDCs studied. The mortgage pool has not been as successful as most had hoped.

Economic development lending is carried out by the Economic Development Division in Restoration and by Progress Venture Capital Corporation in Zion.[1] EDD, also, offers loan packaging, managerial and technical assistance. These latter functions are split in Zion between PVCC, EDTC, and, to a very limited extent for local purposes, NPAED. Both EDD and PVCC have had substantial losses on their portfolios. EDD appears to us, however, to have developed a more coherent program than PVCC and shows more promise. EDD and PVCC had hoped to market technical and managerial assistance for a fee, but this has not yet materialized substantially in either organization.

b. Not-For-Profit Subsidiaries

Social Services Component

Each of the CDCs conduct some social service activities which are not expected to generate revenues. The major programs of this sort are operated by the community organization of TWO and the Area Development/Neighborhood Centers of Restoration. There is no analog to these activities in Zion, which has tended to rely on the community interest in the 10-36 plan and the local knowledge of Reverend Sullivan's Zion Baptist Church members. The programs of TWO and Restoration appear to be well-established in their local communities.

TWO's organization appears to be a more active political force in Woodlawn than has been true of Area Development in Bedford Stuyvesant. This difference is partly a matter of historical development and style of the two organizations and partly a matter of the larger size of Bedford-Stuyvesant which makes it difficult to focus the whole community on specific issues and because Bedford Stuyvesant contains many more competitive local organizations. Both of these CDCs provide a set of links between the community and the CDC and a mechanism for communicating CDC plans and priorities to the community. In our interviews, both organizations

1. TWO/WCDC does not have an analogous set of functions.

have expressed an awareness and concern about community interpretation of major housing and commercial development, particularly if such developments turn out to provide only marginal assistance to low-income people. Partly because there is no analog to these organizations in Zion, we did not develop a sense of a structured view of these relationships or concerns in Zion.

Problems posed by possible community concern may prove to be more serious for TWO's community organization than for Area Development, largely because of TWO's more extensive past role as a protest organization. The obvious understanding of the "responsiveness" issue in both organizations, however, is likely to make it possible to utilize the tension in ways which enhance both the community and the CDC. Both CDCs maintain that substantial social service programs in the community are important in their own right and represent a community valued complement to the more obvious corporate structure and priorities in the rest of the CDC.

Individual Grant Component

Each of the CDCs have individual grant/contract activities funded to cover only operating expenses and allocated overhead. These have less organizational implications in Restoration than in TWO and ZNPCT because of the greater cross-program flexibility of the Special Impact grant to Restoration. All of the CDCs are aware of the value of a more coherent structure and strategy than is easy to achieve if the program elements are determined by a large number of independent grants. ZNPCT has included, for a long time, two major independent grant programs, EDTC and NPAED, both funded by OMBE. Both could be treated as somewhat independent entities, with no necessary link to other Zion activities. In practice there is some program interaction and, until recently, considerable use of OMBE-supported staff to carry out functions Zion more generally. Program-oriented grant agencies (as opposed to the more general grants from Special Impact funds) tend to look at such interaction with disfavor, thus limiting its possibilities.

TWO, during much of the 1960s, operated essentially as an organizational shell for individual grants and took longer to develop as a coherent organization as a result. Nevertheless, TWO has found it both necessary and desirable to continue to pursue some individual grants, particularly for manpower programs. Part of the intent is clearly to develop some means of more general purpose support from the grant funds; but a major part of the intent is to conduct manpower training in needed skills, which heretofore had to be funded with discrete grants if it was to be funded at all in Woodlawn.

Developmental Activities

The range of new program developmental activities, which require at least temporary subsidy, is great among the CDCs. Restoration has attempted to develop a major ex-offender program, a sanitation company, a health facility, and a cable television franchise. In this category Zion has its Progress Property Management Company, Progress Development Services Corporation, and Progress Construction Company. Many of these programs are expected to generate "own revenues" and become self-sustaining over time. Zion has experienced the most shifts in these activities. They were originally in the Trust, then in ZIA in an attempt to collect all profit centers in ZIA, and now they are back in the Trust. The purpose of this latter move was to explicitly recognize the current need for subsidy in the programs and to improve ZIA's profit picture by their departure and purchase by the Trust. In Restoration, Area Development has viewed its role as an innovator of new projects or programs for subsequent spin-off as a major part of its function. These new programs have not generally been implemented during our evaluation period, although some of them are still being actively pursued, such as the day care and health center programs.

2. Some Comparisons Among CDCs and Overall Assessment

There has been an increasingly common definition of program categories and organizational structure among the three CDCs during our evaluation. The major component of this common thread is an interest in real estate development on a large scale. This represents a combined starategy of linking interests in housing, business development, and commercial development into a package. It, also, represents a shift from the more scattered individual program emphasis of the past, and calls for a more sophisticated organizational structure. It becomes more difficult to say where housing development and economic development begin and leave off because of greater interdependency and coordination of efforts.

Each of the CDCs has a program involving major housing projects--in Woodlawn, Woodlawn Gardens and Jackson Park Terrace; in Philadelphia, Zion Gardens; and in Bedford Stuyvesant, Site A and Site 66. Each of the CDCs has or had a commercial center development. All of the CDCs have plans in various stages of completion for additional housing and commercial developments. In Woodlawn, this is represented by the plan for redevelopment of a sizeable tract of land. In Bedford Stuyvesant it is represented by the plans for neighborhood shopping centers, the St. Joseph site, and the Myrtle Avenue site. In Philadelphia, it is represented

by plans for a major shopping center in West Philadelphia, and less certainly, the redevelopment of several blocks in North Philadelphia.

All three of the CDCs have made some efforts to develop large-scale plans on the order of magnitude of a new-town/in-town. At the moment it seems unlikely that any of these plans are likely to come to fruition in the near future. On a more scaled down level, the prospects are quite good for Woodlawn to participate in a major redevelopment of one site and for the Restoration Corporation to move forward on the St. Joseph and Myrtle Avenue sites. We are somewhat more skeptical about the future redevelopment plans in Philadelphia than these other developments in Woodlawn and Bedford Stuyvesant.

There are two reasons for this differential assessment. The first is that both TWO and the Restoration Corporation have taken significant steps to enhance their real estate planning and property development functions, while, as of this date, similar upgrading has not occurred in Zion. In Bedford Stuyvesant the Restoration Development Corporation and the closely allied Restoration Commercial Center have demonstrated significant planning skills and detailed awareness of many of the complexities associated with major real estate developments. The Woodlawn Community Development Corporation has shown similar sophistication, aided by the Center for Community Change, in the development and construction of Jackson Park Terrace as well as in the upgrading of the real estate planning and development function through the hiring of new staff directors with considerable experience in their areas. This has not occurred in the case of Progress Development Services. This situation stems, in part, from the complicated management problem, indicated in Chapter 4, which concerns the lack of clear direction and mandate for real estate development. An additional factor which gives more credibility to the efforts in Chicago and Bedford Stuyvesant is the demonstrated capability of both WCDC and RDC in making use of external technical advisors.

Data comparisons we made among measures reflecting conditions in Woodlawn, Bedford Stuyvesant, and North Philadelphia suggest different arrays of needs in the three communities.[1] Conditions in all three areas are obviously worse than in the surrounding urban area, but they differ signficantly between the communities served by CDCs.

1. U.S. Bureau of the Census, Census of Population: 1970, Employment Profiles of Selected Low-Income Areas, Final Report PHC(3)-21 Philadelphia, Pa. - Area II; Final Report PHC(3)-18 Chicago, Ill. - Area II; and Final Report PHC(3)-9 Brooklyn Borough, New York City - Area II, U.S. Government Printing Office, Washington, D.C., 1972. The areas covered include the relevant CDC communities aithough they do not exactly coincide.

Woodlawn is relatively the worst off of the three areas with respect to employment problems for young people and women. A very low percentage of the labor force holds jobs in the local area. The jobs which are held by the labor force tend to be concentrated in low-wage job categories. A combination of the high unemployment rates and low income for those who are employed leads to very high costs as a proportion of income for either mortgages or rent plus utilities. In this context there appears to be a considerable need for additional job development and the development of low-cost housing.

The Woodlawn Organization, however, currently has no economic development division or, so far as we know, any plans to develop one. They have made energetic moves in the area of manpower training which should help somewhat with the youth unemployment and female unemployment problem, but their current development plans do not include job development as a major component.

The major vehicle for development of low-income housing was cut off by the freeze and withdrawal of Section 236 funds by the federal government, a factor which prompted greater concentration on development of housing for a higher income market. In the recently completed major housing project, Jackson Park Terrace, current rent-up plans include relatively few low-income rentals. These plans now call for approximately 80 percent market rent plus rent supplement with only a few genuinely low-income units. Such housing projects cannot be expected to have much of a direct impact on the low-income housing problem of Woodlawn, although they may have some demonstration effect.

TWO did not arrive at its plans for a substantial market rate tenancy inadvertently. Rather, they had two quite specific reasons for this choice. The first of these reasons was that rents above the rates achievable through low-income housing projects were necessary to produce a positive cash flow for the project after allowance for construction cost increases. The second reason is the belief expressed by the principal spokesmen of TWO that a mix of tenants is required in low-income area housing in order to prevent deterioration through vandalism or lack of care of the housing stock and to provide higher income models for lower income subsidized tenants. The longer term goal is to change the income mix of the community.

Given the experience in many cities with public housing filled solely with low-income families, which has almost always led to rapid deterioration and high crime rates, the argument made by TWO management is plausible. We know, however, of no major housing projects in which such a wide mix of incomes has been sustained,

so we are unable to assess the effects of the expected tenant mix on the housing project. There is a danger to the Woodlawn Organization of a loss of community support as they observe very few of the poor families from Woodlawn being housed in Jackson Park Terrace. Prevailing feeling in Woodlawn is that they have a sufficiently strong community base to explain to the community the rational for the program in persuasive way.

In Philadelphia the community served by Zion is worst off among the three in terms of the educational level of the labor force, unemployment rates for the male portion of the labor force, and wages for the female portion of the labor force which is working. The high unemployment rates for males coupled with relatively low education levels would suggest the need for Zion programs which create jobs, as was part of the initial objective of Progress Aerospace Enterprises and Progress Products Corporation. Although we have not reviewed the Opportunities Industrialization Center program in this evaluation, these data help show the importance of linking manpower training programs with real jobs as in the OIC program.

The relatively lower education levels in North Philadelphia suggest also a need for an emphasis on education generally. There is a relatively small but imaginative effort in this direction through the Progress Education Program. The level of the program is not likely to result in major improvements in local education levels. However, the degree of cooperation which appears to have been generated between the Progress Education Program and the local public school system is encouraging.

Bedford Stuyvesant is relatively well-off compared to Woodlawn and Philadelphia in terms of both male and female unemployment rates, education level of the work force, and incomes received while working. The residents of Bedford Stuyvesant also have a relatively lower cost for using public transportation to the usual place of work compared to Woodlawn.[1] This is surprising because one of the advantages customarily claimed for Woodlawn is its ease of access to the "el" and the Chicago bus system. The areas in which Bedford Stuyvesant is relatively worse off relate primarily to the absence of sufficient local employment and the high cost of housing. This suggests that a strategy of job development and substantial increases in the low-income housing stock is appropriate for Bedford Stuyvesant. Both activities are part of Restoration's current strategy through the Housing Rehab Program, plans for new housing construction, and programs of the Economic Development Division.

1. This is partially offset by the relatively lower average cost of private transportation to work in Woodlawn.

The current financing of packages for rehabilitating housing stock in Restoration average out at about $25,000 per unit. This rehabilitated housing, therefore, is likely to be expensive relative to the income of Bedford Stuyvesant residents. With respect to the programs of the Economic Development Division, a major shift in emphasis has occurred since the beginning of the program which will tend to reduce the amount of job creation per dollar of Economic Development Division investment capital. Early experience with loans to industrial and manufacturing companies, which tend to have high job creation potential, had a high incidence of loss. As a result of this, plus the new emphasis on the development of commercial centers within Restoration as a whole, the Economic Development Division has focused its loans on retail activities and construction companies, neither of which tend to result in a high ratio of local job development per dollar of investment costs.

3. Summary of Observations on Progress and Future Prospects

We come now to the important, but somewhat amorphous, problem of assessing the overall organization and prospects of the three CDCs. The conclusions we offer here have been reached on the basis of an effort to understand what a CDC is and some major issues associated with the viability of the CDC as an institutional form, the detailed examination of the performance of subsidiary entities and activities of the CDCs against expected milestones, and observations about each CDC as a whole and when compared to the other two.

Where the Restoration Corporation, the Woodlawn Organization, and Zion are and what they can do is a product of their history, their past choices, and their leadership and staffs. It is, also, a function of external forces beyond the control of the CDCs. Of these forces, the generalized effects of changes in the national economic situation and the specific choices of external public and private funding sources are probably the most critical, although the efficacy of the effort hinges on CDC links with the communities they serve.

Each CDC we have examined, while increasingly structured in a similar way, is distinct. The higher degree of corporate structure and approach of Restoration Corporation stands out immediately. The historical origins of TWO in community organization and protest, with a correspondingly lower degree of corporate organizational structure, stands out. The importance of Reverend Sullivan, both his ideas and presence, explains a great deal about the evolution of Zion and its tendency toward centralization of decisions and relatively less lower level discretion than in the other CDCs. We will not trace these histories further here,

but it is important to note that they are distinct and different entities in spite of their many similarities. Quite naturally, therefore, one must expect different modes of response from each of the CDCs to the opportunities and constraints facing them as well as different means of actively shaping those opportunities and constraints.

The role of leadership is obviously a critical factor in determining outcomes but is hard to quantify. Of the three CDCs, the leadership style of Franklin Thomas and his top managers seems to be more akin to that found in a modern corporation than is true of the others. A clear cut organization structure, with delegated responsibilities and areas of discretion, has evolved in Restoration. Organizational mechanisms exist through which inter-organizational issues can be raised and resolved.

In Woodlawn, the leadership style of the community organization period is still strongly present with a correspondingly more open organizational structure and style. This is currently undergoing significant change with the introduction of new managers with extensive backgrounds in corporate and bureaucratic organizations and the more formal structuring of WCDC as the development arm of TWO Issues tend to be raised and resolved in a looser, more ad hoc way, in TWO/WCDC than in Restoration. This, also, is changing but the process is not as complete as in Restoration.

In Zion, Reverend Sullivan's presence is pervasive, although the Executive Director of ZNPCT and the President of ZIA have had extensive managerial experience. Organizational structure and delegation of responsibilities and discretion are least in evidence in Zion of the three CDCs we have examined.

The future for each of the CDCs depends importantly on its ability to capitalize on the strengths of their organization and leadership without losing in other areas. Restoration's strength is its reputation and corporate credibility with external sources. Woodlawn's strength is its reputation and credibility with the local community. Zion's strength is the reputation and credibility of Reverend Sullivan.

Each CDC we have examined has provided positive indications of its staying power in the face of a deteriorating national economy and the elimination and cutback of many public and private sources of support for programs in minority communities, although there have been severe problems in doing so. We take this to be strong evidence of institutional strength and "self-sufficiency" more broadly conceived than the self-sufficiency derived solely from the generation of current profits. Of the three CDCs we have examined, Restoration seems to have the most internal organizational strength and The Woodlawn Organization the greatest strength

in the community. All of the CDCs have more formally structured their internal organization and have enhanced managerial strength during the period of our evaluation.

Each of the CDCs will require subsidy, over at least the next five to ten years, if even current programs and activity levels are to be sustained. Relatively few of the potential profit centers within the CDCs are currently profitable on the basis of revenues generated from their own activities, although many have shown improvement in this respect during the past year. At the same time, all of the CDCs have indicated in their programming and allocations a strong desire to maintain social and social service programs which cannot expect to receive revenues. These activities will require long-term subsidy for their maintenance, either from external sources or internally generated revenues. The CDCs also all tend to use the not-for-profit part of their organization for initial development of new program areas or projects. These activities require subsidy. Some portion of the staff is covered in each CDC by functionally oriented grants, such as manpower programs. Staff continuity between grants or while awaiting payment on grants leads to a further requirement for subsidies. It is unrealistic to expect the needed subsidies for all of the activities mentioned above to be covered out of internally generated revenues in the near term, or possibly even in the long term.

CDCs offer an imaginative approach to the resolution of some of the massive problems facing the communities in which they operate. At the conclusion of this evaluation, it seems clear that it is unrealistic to expect that the unaided private market or governments in urban areas will pursue the resolution of these problems in ways which are necessarily superior to the programs of CDCs. We have noted in this study both problematic and promising aspects of the operation of CDCs. It is our hope that these observations will help contribute to the design and operation of programs which facilitate achievement of the common goal of improving conditions in the communities served by CDCs.

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